The Economist

20020119

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition January 19th 2002

The real scandal
America's capital markets are not the paragons they were cracked up to be ... More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

Enron
The real scandal

Germany
Stoiber v Schröder

Pakistan, India and Islam
The saving of Pakistan?

Silvio Berlusconi and the law
Still giving Italy a bad name

Al-Qaeda prisoners in Cuba
The rights of terrorists

Economic policy
Restoring the fiscal option

Letters

On Bob Lutz, coffee, tango, men, Argentina, America's Senate, three wise men, Zimbabwe, English, Ur-references

Special Report

India, Pakistan and Kashmir
The stand-off on the roof of the world

Warheads and missiles
Race to the finish

United States

The politics of Enron
Four committees in search of a scandal

Afghan prisoners
A transatlantic rift

Immigration
Who goes there?

Snowbirds of the south-west
On the road to Heliopolis

Lexington
The dangerous quest of Al Sharpton

The Americas

Colombia's peace process
The FARC's moment of truth

Argentina
Survival struggle

Uruguay and Argentina
Stormy summer

Politics in Canada
Shuffle in the snow

Asia

China's middle class
To get rich is glorious

Afghanistan
Reluctant donors

Asian diplomacy
Koizumi's depreciation tour

Foreign firms in Indonesia
Local angles

The Philippines
Happy anniversary, Mrs President

America and Central Asia
The Yankees are coming

Hong Kong's amahs
Striking move

Previous print editions
Jan 12th 2002
Jan 5th 2002
Dec 22nd 2001
Dec 15th 2001
Dec 8th 2001
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Business

Corporate health plans
Treatment of choice

Corporate taxation in Japan
Another missed chance

European chemicals
Plus ça change

Intellectual property
More Rembrandts in the attic

Kmart in trouble
Blue Light blues

Express couriers
Intrigue on the orient express

Face value
In a class of his own

Finance & Economics

Enron
The twister hits

South Africa's weak currency
No random walk

Argentina's imploding banks
Should I stay or should I go?

Transatlantic trade
Testing times

Lazard
Revival time

A Chinese banker investigated
Something rotten in the realm

Letter from Zurich
A very Swiss affair

Economics focus
Remember fiscal policy?

Correction

Science & Technology

Conservation in the Falkland Islands
Virtue rewarded

Animal behaviour
A strange fable

Fingerprint evidence
Printing errors

Mathematics
A new wave

Books & Arts

Internet shares
Do you sincerely want to go crazy?

John Ford
Print the legend

Wells Fargo
Ponying up

Christmas crossword prizewinners
Congratulations, they're abroad

Medieval history
The rise of Europe

New fiction
Horns of Africa

Middle East & Africa

Israel and the Palestinians
Building a Palestinian state, in reverse

Libya and America
From foe into friend?

Disarming Sierra Leone
Pax Leone

SADC
Mr Mugabe, please be nice

Iran's embattled parliament
Rattling the supreme one

Europe

Germany's election
It's the economy, Dummkopf!

Italy, its prime minister and the law
He's not safe yet

France's businessmen
Hogtied

France, corruption and the law
The bitterness of a judge

Gibraltar
A deal too far?

Charlemagne
Edmund Stoiber to lead Germany?

Britain

Railways
Come back, Dr Beeching

Cities
The doughnut effect

Skye Bridge
Revenge of the Picts

Culture wars
Ken who?

Zimbabwean refugees
Asylum granted

Health
The Californian way

Motor-racing
In a spin

Bagehot
The new centre

Articles flagged with this icon are printed only in the British edition of *The Economist*

Palestine
Grey is hard to find

Obituary

Cyrus Vance

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Portfolio poll

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The Economist metals index

Emerging-Market Indicators

Overview

Genetically modified crops

Economy

Financial markets

Advertisement

Classifieds

Jobs
Pre-press Technician
Based: Central London The Economist Newspaper is seeking a Pre-press Technician to join the ....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Republic of Ghana Ministry of Trade, Industry, PSD & PSI - Request for Expression of Interest: Preparation of Competition Bill for Ghana

Jobs
Lead Economist
The Social Protection and Labor Sector (HDNSP) contributes to The World Bank's mission of pov....

Tenders
Requests Expressions of Interest for The Development of a New Lignite Mining Facility and Associated New Electric Generating and Transmission

Jobs
Energy Analyst
International Energy Forum Secretariat (IEFS) Riyadh, Saudi Arabia The I....

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Jan 17th 2002
From The Economist print edition

Prisoners' dilemma

The United States came under fire from human-rights organisations for classifying the **al-Qaeda** prisoners it is detaining in Cuba as “unlawful combatants” rather than prisoners-of-war, thereby denying them rights under the Geneva Conventions.

See article: The rights of terrorists

The Justice Department said that John Walker, a young American who joined the **Taliban**, will be brought back to the United States to face charges in federal criminal court of aiding terrorism, including conspiracy to kill American citizens.

See article: America's views on the Afghan prisoners

A **pretzel** got the better of President George Bush when he choked on it while watching a football game. Mr Bush fainted and collapsed but later resumed a tour of the country with no apparent ill effects apart from a large bruise on his cheek.

Zone of uncertainty

Colombia's peace process limped on. Hours before President Andres Pastrana planned to order the army to retake a guerrilla-controlled “peace zone”, the FARC rebels agreed to restart talks, despite government surveillance of the zone. But to renew the life of the zone, Mr Pastrana wants the FARC to agree to immediate negotiations for a ceasefire.

See article: Colombia's wobbling peace process

In **Argentina**, several branches of foreign banks were wrecked during further protests against controls on bank withdrawals. After a devaluation which ended a decade in which the peso was fixed at par with the dollar, it sank quickly to around 1.85.

See article: More protests in Argentina

In a sweeping government shuffle, Jean Chrétien, **Canada's** long-serving prime minister, named John Manley, formerly the country's foreign minister, as his deputy and seeming heir apparent. Mr Chrétien said he would stay in his job—at least until next Christmas.

See article: Canada's government shake-up

Violence as usual

Tit-for-tat violence intensified in the **Israeli-occupied territories**. A Palestinian militia group, linked to

Fatah, killed two Israeli settlers after one of its own leaders was assassinated, presumably by Israel. Widespread protest erupted after the Palestinian Authority arrested Ahmad Saadat, wanted by Israel in connection with the murder of its tourism minister.

See article: State-building, in reverse

An **Iranian deputy**, imprisoned for speaking his mind in parliament, was pardoned by the country's supreme leader, Ayatollah Ali Khamenei, after the speaker threatened to paralyse parliament's business.

See article: Rattling the supreme one

Kuwait celebrated with national holidays, the distribution of free trees to every home and the slaughtering of sheep as its ruler returned from four months of medical treatment in London after suffering a brain haemorrhage.

A general strike froze **Nigerian cities**, as unions protested against a recent 18% rise in the heavily subsidised price of petrol. The government declared the strike illegal and arrested union officials.

Under international pressure, **Zimbabwe** postponed passing a law aimed at making life hard for independent journalists. But opposition activists continued to be murdered, allegedly by Robert Mugabe's militia. Britain promised to stop deporting Zimbabwean asylum-seekers.

See article: Trouble in Zimbabwe

In **Madagascar**, the constitutional court ordered a recount of last month's presidential election, which had yielded no clear winner.

The opposition in **Zambia** filed a petition to have the result of their country's presidential election nullified, alleging vote-rigging by the ruling party, whose candidate won. Opposition offices were promptly raided by police.

Conservative choice

Germany's two main conservative parties picked Edmund Stoiber, premier of Bavaria and leader of the Christian Social Union, as their candidate to become **Germany's chancellor** after a general election later this year. The leader of the much larger Christian Democratic Union, Angela Merkel, had withdrawn her bid for the candidacy.

See article: Edmund Stoiber

France's main business organisation, Medef, demanded cuts in taxes and social charges, and the easing of labour laws. The Constitutional Council had already ruled against parts of a recent law that would bar lay-offs through redundancy except in extreme circumstances.

See article: France's bosses are feeling hogtied

In **Cyprus** the leaders of the Greek-Cypriot and Turkish-Cypriot communities opened face-to-face negotiations. Outsiders hope that the talks will lead to a deal bringing the breakaway “Turkish Republic of Northern Cyprus” back into the fold as part of an island united, however loosely, under a single central government.

Russia's president, Vladimir Putin, visited **Poland**, the first leader of his country to do so since 1993.

Norway's finance minister, Per-Kristian Foss, revealed that he had formalised his long-term **gay partnership** under Norwegian law.

Will Britain and Spain agree to joint sovereignty over **Gibraltar**? Some British MPs erupted over press reports that the deal was done already. Not so, said the British government, po-faced.

See article: Joint sovereignty for Gibraltar?

Pat Cox, an Irish liberal, was elected as president of the European Parliament.

War averted?

Tension between **India** and **Pakistan** eased after the Pakistani president, General Pervez Musharraf, ordered a crackdown on militants blamed for a recent attack on the Indian Parliament.

See article: The problem of Kashmir

The World Bank said that rebuilding **Afghanistan** will cost $15 billion. As the central bank reopened in Kabul, the governor said he had more money in his wallet than was in the bank's safe.

See article: Reluctant donors

Afghanistan's interim government banned cultivation of the opium poppy and trafficking in its derivatives, including **heroin**. Afghan farmers have started to sow the poppy since the defeat of the Taliban, who imposed a similar ban.

East Timor is to set up a truth and reconciliation commission as a “healing process” like the one in South Africa that probed apartheid-era crimes.

_____

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Business this week

Jan 17th 2002
From The Economist print edition

Enron aftershocks

The **Enron** scandal hit Washington, with links between Kenneth Lay, Enron's chairman, and George Bush and other Texas Republicans coming under scrutiny. **Andersen**, Enron's auditor, admitted that thousands of documents relating to the audit had been destroyed, some after an investigation by the Securities and Exchange Commission had begun. An inside letter came to light warning Mr Lay in August that Enron could "implode in a wave of accounting scandals". And some reports suggested that Andersen knew of Enron's troubles as long ago as last February.

See article: The twister hits

KPMG also suffered severe censure at the hands of the SEC. The "big five" auditor had invested funds with Short-Term Investments Trust, an investment firm that it also audited. KPMG pleaded that it had made the investment through a third party.

See article: The real scandal uncovered by Enron

J.P. Morgan Chase announced a fourth-quarter loss of $332m, compared with a profit of $708m a year earlier. Much of the loss was due to Enron and Argentina. The bank earlier revised estimates for its total exposure to Enron from $900m to $2.6 billion.

Not for sale

Investors reacted angrily on discovering that **Rhodia**, a French chemicals company, had rejected an offer, with a hefty premium, from **DSM**, a Dutch rival. Rhodia has struggled in a consolidating industry but its management rebuffed the offer, perhaps as it would have lost influence.

Three rivals made a successful joint bid of *euro*2.5 billion ($2.2 billion) for **Rodamco North America**, America's third-largest shopping-mall company. Australia's Westfield Holding (which has a 24% stake in the company), America's Simon Property Group, the country's largest mall owner, and Rouse will divide up Rodamco's 35 malls.

Car trouble

Ford announced a fourth-quarter loss of $5.1 billion, bringing losses for the year to $5.5 billion. The loss included a $4.1 billion charge for a restructuring that will include capacity cuts, plant closures and the loss of 35,000 jobs.

General Motors said that profits for the fourth quarter were down by 58% to $225m from a year earlier. A faltering economy and an interest-free financing deal slashed profits at its mainstay North American vehicles business.

General Electric, the world's biggest company by stockmarket capitalisation, reported a 9% rise in profits for the fourth quarter, to $3.9 billion.

The online auctioneer, **eBay**, made record profits in the fourth quarter. Operating profits jumped by 56% over a year ago, to $42m.

AMR, the parent company of American Airlines, reported losses for the fourth quarter of $798m. The economy and the after-effects of September 11th contributed to the record loss.

Kmart suffered the indignity of a “junk” debt rating from Moody's and relegation from the S&P 500 index after its shares slumped and bankruptcy loomed. America's second-biggest discount retailer has failed to do better after its latest restructuring and suffered a dismal Christmas. Its shares hit a 36-year low.

See article: Kmart's woes

The **World Trade Organisation** ruled in favour of the EU and ordered America to repeal a system of tax breaks for its exporters. However, Europe's right to retaliate with sanctions equal to the $4 billion hidden subsidy will be tempered by reluctance to start a full-blooded trade war.

See article: Transatlantic trade

Succession planning?

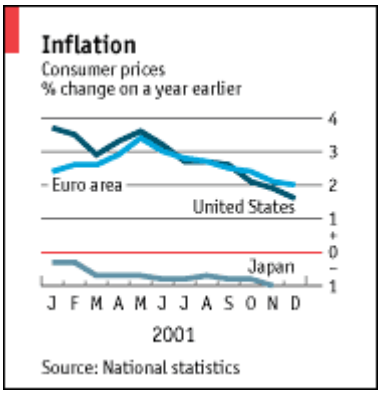
A possible successor to Sandy Weill at **Citigroup** emerged. Robert Willumstad assumed the newly created post of president. But Mr Weill, chairman and chief executive of the financial-services giant, may have acted to keep investors happy by seeming to anoint a crown prince while keeping his options open; he may stay put for many more years.

Deutsche Bank is preparing a big shake-up that would shift away from its consensus-based management board and instead give its prospective chairman, Josef Ackermann, power akin to an American chief executive when he takes over in May.

The chairman, chief executive and a senior manager at **Société Générale** became the latest bankers to be questioned by French police looking into money-laundering allegations. A wider probe by the French authorities has lasted three years and involved many of the country's leading banks.

Prices down

America's consumer-price index fell by 0.2% in December to 1.6% for the year as energy costs dived. The diminishing fear of **inflation** may make it easier for the Federal Reserve to consider cutting interest rates yet again at its next meeting at the end of the month.



See article: The case for using fiscal policy

_____

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Enron

The real scandal

Jan 17th 2002
From The Economist print edition

America's capital markets are not the paragons they were cracked up to be

Get article background

THE collapse of Enron was spread over several months late last year, when the world's attention was still on Afghanistan. The Texas-based energy-trading giant, once America's seventh-biggest company, declared bankruptcy on December 2nd. Yet it has taken until now for this simmering affair to boil over in Washington, DC. And, as so often, the ensuing scandal risks focusing on the wrong issues.

On Capitol Hill, much of the talk has been of the close links that Kenneth Lay, Enron's chairman, had with George Bush and other Texas Republicans. The press has been burrowing into how often Mr Lay and other Enron bosses called administration officials to beg fruitlessly for help. There has been tut-tutting about congressmen collecting campaign money from Enron, which, far from buying Republicans alone, was admirably bipartisan: three-quarters of the Senate took Enron cash. And public indignation has been roused over how much Mr Lay and his colleagues made from Enron shares, unlike their workers, whose pension funds were largely invested in Enron stock that they were unable to sell in time.

Yet little of this is new. Certainly, Enron's demise confirms some unattractive features of American public life (see article). The campaign-finance system puts too many politicians under obligations to big-business donors: Enron lobbied successfully for exemption from financial regulation for its energy-trading arm, and it also helped to draw up the administration's energy policy. Executive pay and stock options have long given bosses too much for doing too little. Some companies have been at fault in encouraging workers to invest pension money in their shares; after Enron, legislation to limit this is urgently needed. But for the most part, the bankruptcy of Enron was just part of the rough-and-tumble of American capitalism, the most successful system the world has known.

Who guards the guardians?

Yet there is one big issue that should now attract more attention: the governance of the public capital markets, and especially the role played by auditors. The capital markets, and indeed capitalism itself, can function efficiently only if the highest standards of accounting, disclosure and transparency are observed. In America, well-policed stockmarkets, fearsome regulators at the Securities and Exchange Commission (SEC), stern accounting standards in the form of generally accepted accounting principles (GAAP), and the perceived audit skills of the big five accounting firms, have long been seen as crucial to the biggest, most liquid and most admired capital markets in the world.

The collapse of Enron is now raising some big questions (see article). Andersen, the company's auditor, has admitted to an “error of judgment” in its treatment of the debt of one of Enron's off-balance-sheet vehicles; these vehicles led to an overstatement of profits by almost $600m over the years 1997-2000. This week Andersen fired the partner in charge of the Enron audit, when it found that he had ordered the disposal of documents even after the SEC had subpoenaed the firm as part of its investigation into Enron. This is not the first time that Andersen has been in trouble: last year, it was fined over its audit of another Texan company, Waste Management, and it also had to settle a suit over the audit of Sunbeam, a Florida-based company.

If this were simply a case of one accounting firm doing wrong, that would be regrettable but containable.

Andersen may go under thanks to Enron litigation anyway. But the truth is that it is not unique. It may have been unusually culpable, but all the accounting firms have made mistakes in the past. Only this week, KPMG became the latest to be censured, this time for breaking rules barring investment in audit clients.

That points to the need for systemic reforms, in three areas. The first is the regulation of auditors. For years the profession has insisted that self-regulation and peer review are the right way to maintain standards. Yet Enron has shown that this is no longer enough. The Public Oversight Board should be turned from a self-regulatory body appointed and financed by accountants into a statutorily independent organisation reporting to the SEC. And it should be given teeth, including the power to ban or fine auditors for misdeeds.

Second is the urgent need to eliminate conflicts of interest in accounting firms. Andersen collected audit fees of $25m from Enron, its second-biggest client, last year, but it earned even more for consulting and other work. The accounting firms have fought off attempts to limit or stop them undertaking consulting work for audit clients; they insist that there is no real conflict of interest. Yet if confidence in auditing is to be regained, perception is as important as reality. The SEC should now pursue again the ban that its previous chairman, Arthur Levitt, sought to impose in 1999. There is also a strong case for compulsory rotation of auditors, say every seven years: Andersen had audited Enron since its birth in 1983.

Lastly come America's accounting standards. GAAP standards used to be thought the most rigorous in the world. Yet under British standards, Enron would not have been able to overstate its profits by so much. And, once again, although Enron may have been egregious, it is not a lone offender. Several dotcoms and technology companies have used what is euphemistically called “aggressive accounting” to boost reported earnings. Too many companies have got away with “pro forma” accounting that delivers nice numbers by omitting such items as stock write-offs, special transactions, interest charges or depreciation. And the accounting treatment of stock options has long been a disgrace.

The SEC and its standard-setting body, the Financial Accounting Standards Board, should now revisit GAAP; they might even embrace international accounting standards instead. There is a lesson from British experience in the 1980s, when several audit scandals led to both tougher regulation and more rigorous accounting standards. The Enron scandal shows that America can no longer take the pre-eminence of its accounting for granted. That is a far bigger concern than any number of congressional investigations.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Germany

Stoiber v Schröder

Jan 17th 2002
From The Economist print edition

Economic reform must lie at the heart of the German election campaign that began this week

EPA

Get article background

EUROPE has a problem—and its name is Germany. This giant is still superior on many measures, both social and economic, to the region's other big countries—Britain, France, Italy, Spain. But it is becoming less so, as Europe's biggest and once most vibrant economy is failing on the most important measure of all, the creation of new jobs and new economic activity. The country that should and could be Europe's leader has become its laggard. If this goes on, the consequences, both for Germany and for the whole of Europe, could be baleful.

Fortunately, a debate is under way about how to improve things. Election campaigns are not always welcome, except to journalists and to candidates, for their showmanship and argument can merely become distractions. But the long battle to be elected as Germany's chancellor on September 22nd and to form a new government has begun at just the right time. New ideas and mandates are needed to help blow away some of the many obstacles that stand in the way of growth and higher living standards. No one can deny that the German economy has been sagging badly, as new GDP figures showed on January 17th. And a new face, that of Edmund Stoiber, premier of the country's most successful state, Bavaria, has emerged as the opposition's challenger to the current chancellor, Gerhard Schröder. Rather as in Bill Clinton's slogan for his 1992 presidential election victory, the motif of the campaign is abundantly clear: “It's the economy, Dummkopf!” (see article).

Germany isn't working

Another old election slogan, that of Margaret Thatcher's Conservatives in the British general election of 1979, also springs to mind. Mrs Thatcher's posters said that “Britain isn't working”, as she used high unemployment as her main stick for beating the incumbent Labour government. Jobs are the best symptom now of Germany's ills, too. Unemployment has risen to close to 4m people, reversing what had been an improving trend in 1997-2000. Mr Schröder, a Social Democrat, beat his veteran right-wing opponent, Helmut Kohl, in 1998 with a promise to cut unemployment to at least 3.5m by 2002. He may have thought, until a few months ago, that he stood a chance of achieving it. He doesn't now. And the underlying situation is even worse than those figures imply.

It is worse because unemployment figures, though a fair measure of short-term misery or improvement, are just the gap between two large numbers: the labour force (ie, the number of people able to work and wanting to) and employment. A better long-term measure of a country's ability to raise living standards and keep its people happy is the growth in the number of jobs. Since 1995, jobs in France have increased by more than 9%; those in Britain and Italy by 8%. In Germany over that period they have increased by a mere 2.6%.

During the 1990s, Germany had a good excuse for its high unemployment and poor jobs growth: it was going through the extraordinary task of absorbing the former East Germany, and paying for its adaptation from communism to capitalism. As time moves on, that excuse has been fading. Now, Mr Schröder's government is waving a new excuse, the world's economic slowdown, led by America. What he will have to explain, however, is why that slowdown has had a much bigger effect on Germany than

on the other big European economies—why what was long Europe's most resilient economy now so often looks its most vulnerable.

Needed: an economic liberal

Germany has not been standing still under Mr Schröder's government. In foreign policy, he and his excellent foreign minister, Joschka Fischer, have given his country a welcome shove towards playing a bigger international role. He has cut income and corporate taxes, with more instalments due in 2003 and 2005, and a reform of capital-gains tax took effect on January 1st. He has also made a good step in the right direction to make Germany's pension system more suitable for an ageing society. And his government has done more to liberalise his country's former electricity and telecoms monopolies than has Lionel Jospin's government in France, for example.

But it is not enough. Given the tangle of regulations, complex taxes and high social security costs, companies are loth to create new jobs and to expand their businesses. Too many have concluded that they would be better off setting up shop in Central Europe. Retailers (not to mention shoppers) are hampered by absurdly antiquated restrictions on opening hours and even on how they may compete with one another. Other service firms are choked by red tape. Many regulations were brought in years ago, for what then seemed like good reasons. Now, they just protect the established firms, prevent newcomers emerging among Germany's famed small and medium-sized firms, maintain the strength of trade unions and existing employees, and stop new jobs and businesses being created. What is needed is for such regulations and other obstacles to be swept away by a liberalising government, to set enterprise free and stimulate innovation.

So far, it is not at all clear that Mr Stoiber would be any better at this (see article). He is no stranger to government intervention, having meddled and subsidised on many occasions in Bavaria, much as Mr Schröder did in his state of Lower Saxony and has done as chancellor. His Catholic, Bavarian background may anyway cost him support in the northern states. He says worryingly restrictive things about immigration. But at least he has spotted that economic reform and revival must lie at the core of his election campaign. As that campaign gathers momentum, the hope must be that Mr Stoiber will realise that to beat Mr Schröder it will not be enough to outpace him with promises of job subsidies and other tricks. He will have to offer a genuine alternative. And, since he would anyway most likely have to form a government in coalition with the small and relatively liberal Free Democrats, he will be better off leaning in the liberal direction.

There is a long way to go. But who knows? Win or lose, a campaign centred on economic reform could even turn Mr Schröder into a liberaliser. Europe certainly needs it to.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pakistan, India and Islam

The saving of Pakistan?

Jan 17th 2002
From The Economist print edition

General Musharraf is waging a welcome war at home

Getty images

Get article background

HIS supporters sometimes call him the second Jinnah, meaning that Pervez Musharraf is the man to re-found Pakistan, restore it to its original secular traditions and purge it of the corruption that has brought the country to its knees, and of the extremists that have brought it to the brink of war with India over disputed Kashmir (see article). Such talk is an exaggeration: military dictators, after all, tend to attract sycophants. But since September 11th, this one has found the courage to side unequivocally with America against the Taliban regime in Afghanistan, and now to call a halt to the Talibanisation of Pakistan. He knows that Pakistan's survival is at stake.

His speech on January 12th, nominally to the nation, but in reality also to India and to the world, could well come to be seen as one of the turning-points in Pakistan's brief and unfortunate history. In the bluntest of terms, Mr Musharraf aligned his country with the international mainstream, rejecting terrorism and theocracy, and excoriating those who have perverted Islam for their own ends. Five of the most notorious Islamic groups have now been banned; hundreds of their followers have been rounded up; mosques have been told that they will be monitored and closed down if they allow the pulpit to be used for promoting terror; religious schools are to be brought into the education system.

Mr Musharraf understands better than anyone how dangerous the Islamic extremists are, and how close they brought Pakistan to disaster with their unsuccessful attempt to blow up India's Parliament last month. “Every one of us is fed up with it,” he said, with a military man's directness. And he was right: his speech was applauded across the country. Fears that the army would not support a crackdown are likely to prove as wide of the mark as concerns about the decision to abandon the Taliban. Pakistan's army is nothing if not professional.

Unwisely conjured into being in the 1980s by General Zia ul-Haq, who flirted recklessly with fundamentalism, the Islamists were nurtured by Pakistan's far-too-powerful Inter-Services Intelligence agency (ISI) throughout the successive weak and corrupt civilian governments of Benazir Bhutto and Nawaz Sharif in the 1990s. Their activities are the reason why Pakistan was increasingly approaching the status of a failed state, a pariah nation the world was ready to give up on. The world is already starting to revise its opinion, as Mr Musharraf's albeit undemocratic political firmness has been matched with competent economic management. At the end of last year, the IMF and the Paris Club of sovereign creditors both pronounced themselves pleased with Pakistan's economic progress, rescheduling much of its debt, and extending fresh credits. Much work remains to be done: Pakistan may be cracking down on the militants themselves, but the general has so far said nothing about purging the ISI, the army, the state-run educational institutes, the judiciary and the civil service of those who have supported, and still support, Islamisation. Until this is done, militant influence will endure.

Given the world-shaking events occurring in and around his country, it would not have been surprising if Mr Musharraf had taken the opportunity to shelve plans for the restoration of democracy, which he has committed himself to deliver by October. But so far at least he has not, and he and his close associates insist that the deadline will be met. The men in khaki will hardly bow out, though. The general himself will remain as president, a post to which he has no title except might. The government will answer to him, and be dismissed by him. Real power will rest less with parliament than with a beefed-up National Security Council, composed of military men and civilians. If the model sounds reminiscent of Turkey's

qualified democracy that is no coincidence. As a child, the future President Musharraf lived for seven years in Ankara, where his father was an embassy attaché. Kemal Ataturk's conception of the army as custodian of a secular Islamic democracy must surely appeal to him. Turkey offers a much more attractive model of Islam for Pakistan than do its neighbours, Iran and Afghanistan.

And then there's Kashmir

None of this brave experiment will count for anything, however, should Pakistan stumble into war with India. It is a prospect that, thankfully, looks daily more remote, though India has deliberately chosen not to lessen the tension by acknowledging more generously Mr Musharraf's words and deeds. But until India and Pakistan can tackle Kashmir, the root cause of their cross-border animosity, such crises will periodically recur, to the detriment of both countries' stability.

The outlook there is considerably less cheering. India, as the injured party, seems to be in no mood for negotiation and feels profoundly mistrustful that Pakistan will deliver a genuine end to terrorism. Its soldiers are still spoiling for a fight and its politicians face a sensitive election soon in Uttar Pradesh, the country's largest state, where softness on Pakistan is a sure-fire vote-loser. Behind the relatively moderate figure of the prime minister, Atal Behari Vajpayee, lurk more bellicose ones, such as L. K. Advani, the interior minister.

Too many Indians subscribe to the view that there are only problems in Kashmir because Pakistan has fomented them. Pakistan does bear a considerable share of the blame. But so, too, does India. It has not ruled Kashmir well, and the root cause of much of the discontent is that it never made good on the undertakings given to Kashmiris at the time of India's independence in 1947, that their accession to India would be confirmed by a plebiscite. Its soldiers have committed appalling human-rights abuses there. It has consistently subverted Kashmiri state governments when they have appeared too sympathetic to separatism, and it has shown no real enthusiasm for a negotiated settlement.

General Musharraf may be about to confirm the wisdom of the old adage that the worst thing you can do for someone is to grant them their wish. If he does succeed in bringing the terrorists under control, India will lose its best excuse for refusing to tackle the Kashmir question. One day, it might even have to keep its promise of 54 years ago, and let Kashmir vote.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Silvio Berlusconi and the law

Still giving Italy a bad name

Jan 17th 2002
From The Economist print edition

Judicial shenanigans continue to make Italy's prime minister unfit for his office

EPA

Get article background

AT HOME and abroad, Italy's prime minister is making waves, but not of the sort he likes. After September 11th Silvio Berlusconi provoked a diplomatic squall by sounding rude about Islam. He recently upset Europhiles, within Italy and beyond, by letting some of his ministers be rude about the EU, then ditching his pro-European foreign minister. Now his government is being weakened by a widespread perception that its prime minister, Italy's richest man, is putting his own interests before those of his country.

Mr Berlusconi has yet to remove the ubiquitous conflicts between his private and public concerns. Because his companies are embroiled in almost every part of the economy, his failure to do so casts doubt on the motives behind so many of his projects, whatever their merits. A much-vaunted monitoring body, designed to warn politicians if a conflict of interest should arise, is soon to be appointed—by a parliamentary committee run by the speakers of the two chambers, both of them Berlusconi men. As proposed, it lacks teeth.

Still more embarrassing is recent legislation (see article) that might help rescue Mr Berlusconi from his various legal troubles. On a range of judicial issues, new laws have looked patently helpful: there are plans to downgrade false accounting (for which Mr Berlusconi is on trial) to a non-criminal misdemeanour; and evidence obtained in foreign countries has been made less easily admissible in Italy. His government's recent hostility to an EU-wide arrest warrant likewise looked self-serving, since Mr Berlusconi is under criminal investigation in Spain. It is extraordinary, and would be laughable in any other EU country, that the chairman of the parliament's main committee that reviews legislation in judicial matters is one of the lawyers defending the prime minister in one of the criminal trials he is facing.

Since he took office, Mr Berlusconi has been acquitted in one bribery case and has escaped another thanks to a statute-of-limitation law. But he still faces other charges, including bribery of judges. The prime minister and fellow defendants have been using all sorts of ploys to drag out their judge-bribery trial, but the justice minister has just been forced to drop an attempt to transfer a key judge to another job.

Can they be serious?

Italians are, on the whole, bored with the long-running saga of Mr Berlusconi's legal entanglements. His friends deploy an array of excuses. Such, they say, was the extent of red tape, the unfairness of taxes and the venality of taxmen that it was impossible for a man of Mr Berlusconi's talent to make a fortune by the rule-book. In any event, they add, the judges are politically biased against him. And though convicted, in the first instance, on several counts of dishonesty, he has never been convicted in the final court of appeal.

These defences do not wash. Fair-minded Italians did not question the honour of the judges, by no means all of them on the left, when they swept away a corrupt political establishment a decade ago.

True, Italy's standards of business and political probity were low—but both have happily improved a bit since then. Perhaps the worst aspect of the entire imbroglio is not that Italy's prime minister seems bent on shaping the law to protect himself, but that so many Italians do not seem to care. Small wonder that their country is not taken as seriously as it should be in the councils of Europe.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Al-Qaeda prisoners in Cuba

The rights of terrorists

Jan 17th 2002
From The Economist print edition

American officials should not keep al-Qaeda prisoners in legal limbo for much longer

AP

IF A Hollywood screenwriter had suggested the idea, it would have been dismissed as silly. The United States, the world's superpower, captures hundreds of enemy soldiers and alleged terrorists. Instead of setting up prisoner-of-war camps in Afghan territory which it now controls, it begins sending them, in small groups, on a difficult and dangerous journey of thousands of miles. But to where? Not to maximum-security prisons at home or even to bases on the territory of America's many allies in the Afghan conflict. Instead, their destination is a naval base in Cuba, a country which has been one of America's bitterest enemies for 40 years.

Donald Rumsfeld, America's defence secretary, has claimed that the American naval base at Guantanamo Bay—whose ownership Cuba disputes—is the “least-worst” place to hold such dangerous prisoners. But even Mr Rumsfeld has admitted that America has plenty of high-security facilities to house al-Qaeda and Taliban prisoners. The unique attraction of Guantanamo Bay, where America is hastily building cells to hold up to 2,000 prisoners, is not its remote location and shark-infested waters, but the fact that it seems to lie beyond the jurisdiction of America's federal courts, or any other court system for that matter. The prisoners held there will be where American officials seem to want them: in legal limbo.

This is a real cause for concern. The United States has a number of legal options. If there are to be trials, these could be held before an ad hoc international tribunal, other countries' courts, American federal courts, normal American military courts or the special military tribunals which America says it plans to establish, the least attractive choice of all. But it must make a choice, explain its choice to allies and the American public, and then defend it against challenge. What it must not do is to make no choice at all, leaving the prisoners indefinitely beyond the reach of any legal regime. This would put America—pre-eminently a nation of laws—itself outside the law. It would also undermine its rightful claim to be fighting for justice and civilised values against a foe who respects neither.

It is understandable why America initially hesitated about how to deal with al-Qaeda prisoners. They are part of a ruthless terrorist conspiracy. Many are dangerous, willing to kill themselves as well as others. This alone probably justified their shackling during flights to Cuba. At the same time, American officials are naturally eager to glean as much information as possible from them to prevent further terrorist attacks.

Yet they do have rights, no matter how egregious their crimes, and this will be true under any legal regime America chooses. Under international law, which America has so frequently cited in criticising others, they cannot be tortured and must be held in humane conditions. If not charged with a crime, they must be released. If charged, they must be told of the charges, and given a fair trial by a truly independent court. The al-Qaeda prisoners may well be “unlawful combatants” under the Geneva Conventions, as Mr Rumsfeld claims, but this fact alone would not deprive them of these basic rights.

Mr Rumsfeld says that the prisoners in Cuba are being treated humanely, and it is reassuring that the Red Cross and consular officials from other countries have been promised access to them. But America must go much further than this, and clarify its intentions sooner rather than later. The best place to try them is in a federal court, where a number of al-Qaeda terrorists have already been convicted, and where the only man charged with taking part in the September 11th attacks is due to be tried later this year. If it insists on pushing ahead with special tribunals, it must make these fair and independent. After

all, America is fighting for the very concept that no one, not even a terrorist, is beyond the reach of the law—but that has to mean the law's protections, as well as its punishments.

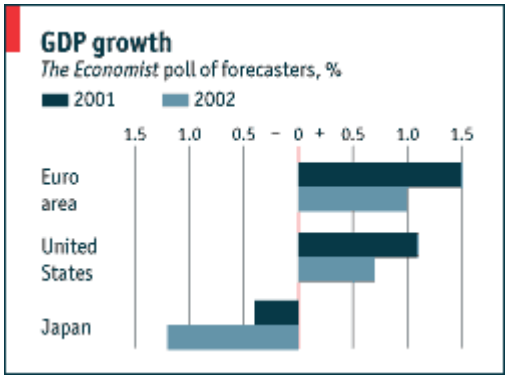
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economic policy

Restoring the fiscal option

Jan 17th 2002
From The Economist print edition

Governments seem unable to use budgets to temper recessions. That is a pity



THE traditional Keynesian remedy for recession—deficit spending, and plenty of it—went out of fashion years ago. As it had come to be applied, it deserved to. Many governments were using budget deficits not merely to cushion recessions but, fatally, to boost economic growth year in year out. That did not work, for the result was chronic inflation and higher taxes. But such past abuses should not blind governments to the role that budgetary policy can play in tempering the economic cycle. The fiscal option is often useful—and sometimes vital.

Yet politicians everywhere, it seems, are intent on denying themselves this option. Europe's governments were so worried that their new single currency would promote fiscal irresponsibility that they devised a “stability pact”, which sternly discourages deficit spending. In the United States, nine months after the recession began, Republicans and Democrats are quarrelling over which ill-conceived measures to include in their stimulus package—as if to prove right those who say that fiscal expansion always comes too late to be any use. And in Japan, where fiscal stimulus has been tried and tried, the policy has apparently been a total failure. Governments of the world's big economies have either rejected the idea of active fiscal policy, or are proving that it would be better if they had.

Money has its limits

This is a dangerous state of affairs. Monetary policy cannot carry the whole burden of stabilising economies, especially when it has succeeded in driving inflation right down. Low inflation means low interest rates over the course of the cycle; and, since interest rates cannot fall below zero, they cannot then be cut by much should recession strike. The contribution that fiscal policy can make to cushioning the economy in a downturn may then become crucial (see article).

However desirable this cushioning might be, does Japan not show that fiscal policy is impotent in the face of powerful deflationary forces? Actually, no. Japan used fiscal policy hesitantly and incompetently during the 1990s. When a big budget stimulus was briefly delivered, in 1995, the economy picked up; but fiscal policy then turned contractionary again. Budgets have not been used in a sustained and determined way to spur recovery. Now the government fears adding to its debt burden (the result of years of stagnation and contraction, note, not of years of seriously attempted reflation). The fear is misplaced. Fiscal reflation combined with monetary easing—“monetisation” of the deficit—would increase debt held by the central bank, not by the public. Even now, then, it is neither too late nor too costly for Japan to use fiscal policy.

What about the shambles over America's economic-stimulus bill? Does that not prove the folly of fiscal activism? It shows the dangers, no question. If fiscal policy is to play its part in softening a recession, without jeopardising the goal of budget balance over the longer term, Congress must be ready, when circumstances require, to pass simple measures that are politically undemanding and plainly temporary, and to do it quickly. With urgency at a premium, bigger one-off tax rebates, for instance, would make better sense than a bitterly contested rejigging of taxes and spending, with bad long-term implications for the budget whoever wins. Is it too much to ask that Congress “prioritise”: deal with the recession first, and argue about long-term taxes and spending later?

Let us hope the politicians can rise to the challenge. If low inflation is here to stay, governments need to learn to use fiscal policy more intelligently. Japan shows how bad the alternative can be.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Jan 17th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Lutz labours lost

SIR – Your article on Bob Lutz at General Motors omits an important part of his record (Face value, January 5th). Between October 1998 and September 2001 Mr Lutz was CEO of Exide Technologies, a troubled maker of industrial and car batteries. Brought in as a turnaround manager with pristine credentials, Mr Lutz fumbled at Exide. Although he introduced several important changes (like revamping the board, settling lawsuits, changing the company's name and moving the headquarters), ultimately Mr Lutz's initiatives proved either superficial or too costly.

Mr Lutz left Exide in mid-crisis. Now the company's shares are in danger of being delisted and it is struggling to stay out of bankruptcy. GM shareholders should hope that Mr Lutz's success at Chrysler, not his period at Exide, will be a model for his future performance.

Natan Shklyar
New York

Espresso opinion

SIR – I should like to add some minor corrections to your article on coffee ("In search of a perfect cup", December 22nd). First, espresso translates as "on purpose" or "intentionally", meaning that every cup is made on its own not in greater quantity in a pot. Also, my compliments for making it all the way to Trieste but it is hardly Italian. It was founded by the Austrians deep in the Slovenian countryside; its tastes and culture are more Central European. Caffe Illy is appreciated more in Vienna and Split than Bologna or Ancona. And good espresso need not be made only from highland beans; that's just how Illy sees it.

What is vital to the taste of espresso (or any coffee or tea) is the quality of the water that is used. Serb friends visiting me in Geneva told me my coffee tasted awful. Next time they brought along their own pot and freshly ground coffee to find the resulting brew just as bad. Geneva water (like most English water) lacks calcium and other ingredients. Water from the Karst tastes like no other, and an Illy espresso tastes nowhere else like in Trieste. (Incidentally, I find that where tea tastes great, coffee will taste lousy, and vice versa.) And we still have not considered the emotional factors involved: tea at 5am in Dover harbour, just off the ferry and not yet quite awake, will always taste perfect, no matter how badly brewed; the first espresso off the train in Venice's Santa Lucia station always tastes like nectar.

Andre Igler
Vienna

SIR – I was fascinated to note that in 1945 Gaggia had not only "greatly simplified the overall design" of the espresso machine but had also redefined the basic rules of physics and was able to compress water. I think I will stick to a good cup of tea.

Eric Ferrel
Geneva

Dance lessons

SIR – Your article on the tango does not make clear that Argentina's tango is totally different from the dance that most people have in mind ("A sense of where you were", December 22nd). Ballroom tango is taught and danced in virtually all European and North American dance studios as well as all international dance tournaments. Unfortunately, ballroom tango is but a kitsch and shallow copycat of the real thing. Argentine dancers justly laugh at it.

Gerd Kommer
Johannesburg

SIR – A tango comeback? Today's tango is no tango. The tango was killed by sophomoric sophisticates like your writer and Astor Piazzolla, who stretched it beyond the limits. Instrumentation and arrangement have degenerated into noise and discord. This racket should be peddled as something other than tango. Tango is music, emotion and word. Tango is Carlos Gardel. How can anyone comment on tango and not even mention him?

M.H. Longmire
Morristown, Tennessee

Parental guidance

SIR – One could argue the merits of your questionable proposition that American men are "downtrodden" with plenty to whine about ("Sometimes it's hard to be a man", December 22nd). What is unarguable is that you have inaccurately portrayed our organisation and position. The National Fatherhood Initiative is indeed the leader of the responsible-fatherhood movement but we are not a "conservative lobby". Believing that every child should be given a committed, involved and responsible father is beyond politics, and we strive to be non-partisan.

You mistakenly report that the NFI "vigorously disapproves of divorce." That is incorrect. What we say is that divorce can have a deleterious and damaging effect on children. We urge any parent with children who is considering divorce to make every effort to make the marriage work and to consider how the decision will affect the children.

Roland Warren
President, NFI
Gaitherburg, Maryland

SIR – Men are not as "in charge" as it appears. The fact that a relative handful are successful in gaining the most glittering prizes is precisely because men as a whole are offered so few life choices (which, in general, you admit) and are driven to attempt achievements impossible for most to attain. Looking beyond the public success of a relative few and again challenging your assertion, the suicide statistics point to a hidden reservoir of male vulnerability. Indeed, the irony is that it is in ending their lives that so many men (often young) exercise the most control they have been afforded up to that point.

James Torr
London

Argentina's future

SIR – Argentina's seemingly absurd defence of the currency board prompts two comments ("Flirting with anarchy", January 5th). First, Argentina exports mainly food, oil and gas, and other low value-added products, whose production will not necessarily expand as a result of devaluation. But a devaluation feeds immediately into the prices of basic household necessities. Second, an overwhelming share of the cost of otherwise inexpensive products and services is the sum of all national, provincial, municipal and labour taxes, for which we get absolutely nothing in return—even the lower middle-class now chooses to pay for private education and health care.

Scrapping the currency board has nothing to do with increasing the economic competitiveness but is about the government inevitably resorting to financing through inflation after the default.

Rodolfo De Luca
Buenos Aires

SIR – Argentina's main problem is not the currency board and its rigid constraints on domestic policymaking. The board has worked quite well and delivered a decade of price stability. The real problem is the lack of a fiscal constitution. The provinces spend much more money than they should—they have huge public sectors, which may be one (if not the) reason for the difficulties today. The federal government, in addition, bails out provinces generously leading to huge public deficits. In the first few years after the launch of the convertibility law, these problems were hidden behind huge privatisation revenues. Nevertheless, they became manifest again in the mid-1990s.

It has to be feared that a loose monetary policy (which does not seem completely unlikely) in combination with generous social spendings by a populist government is just the beginning of a new vicious cycle in Argentina: high public deficits, increasing inflation and capital flight leading to a new austerity programme thereafter. The only way to get rid of the problems sustainably is a serious effort to attack the fiscal problems.

Andreas Freytag
Cologne, Germany

Safe senators

SIR – It is not, as you suggest, only members of the House of Representatives who have to worry about redistricting—imposed on them by state legislators, governors and an occasional federal judge (Lexington, January 5th). Senators are elected by a state's electorate with borders that are generally not subject to change. The lack of competitiveness in Senate races is because of greater geographical concentration of the parties and the financial advantages of incumbency brought about through campaign-finance laws designed to protect incumbent politicians.

Eric Schliesser
Chicago

Written in the stars

SIR – You say that the period covered by the astrological sign of Pisces holds no particular significance for Jews ("A sign of the times?", December 22nd). In fact, the Jewish calendar assigns each sign of the zodiac exclusively to a whole month. Pisces is assigned to Adar, during which Jews celebrate deliverance from what would have been certain genocide. If that is not salvation, what is?

Someone like Matthew, who knew his audience, would have no problem in establishing a connection between kingship and salvation during Pisces. And, after all, as Matthew was talking to Jews after the event was it more important that the Jews or the three wise men understood the significance of such a convergence?

Daniel Rothenberg
Jerusalem

SIR – Born several years BC, Jesus could be called a man ahead of his time. So too could the wise man at left in your drawing. He sports a Sasanian crown of the sort favoured by Shapur II in the 4th century AD. Conversely, the magus at right opts for a retro-Assyrian crown that would have appealed to Sargon II in the 8th century BC.

Anachronisms aside, both kings, inspired by Babylonian learning with its methodical notation of planetary movements and scholarly interpretation thereof, would have approved of the Star of Bethlehem theory combining astrological and astronomical approaches. Avant garde themselves, Babylonians also kept regular records or market-price quotations for commodities, doubtless in search of cyclical patterns and predictive models.

Erica Ehrenberg
New York

Budget holiday

SIR – You miss one up-side to the deteriorating Zimbabwe economy: with black-market exchange rates at five times the official rate, it is possible, as I did, to run up a three-day bar tab in a Victoria Falls hotel

for a mere $21 (“Sunhat, bikini, flak jacket”, December 22nd).

J Buckberrough
Vancouver

Plain English

SIR – You imply English is not easy to learn because of spelling, irregular verbs, etc (“A world empire by other means”, December 22nd). Its history and natural success belie this. English was created rapidly for practical reasons by uneducated “users”. The indigenous Anglo-Saxons and their new French-speaking masters had to communicate—so English quickly evolved as a combination of the two parent languages. It was the easiest solution, and created a practical, flexible and adaptable peasants' language in about 150 years.

Wherever it had to compete against other languages, English invariably won. In North America, for instance, the new Italian, Slavic and Germanic immigrants clearly had a choice of Spanish, French and English. The vast majority chose English and learned very fast, as well as enriching the language. English is the linguistic proof of Darwinism.

You also make the popular assertion that ethnic culture is strongly linked to language. This is wrong. The English, Scots, Welsh, Australians, Americans, Irish and South Africans all have their own distinct cultures despite sharing a language. As do Argentines, Mexicans and Spanish. and the Slavic speaking Czechs, Slovaks and Serbians. And try telling an Austrian that they are culturally the same as a German.

Mike Sykes
Slovenia

SIR – I was startled to read that “only nine students graduated in Arabic from universities in the United States last year.” You were possibly misled by the bizarre complications of academic administration and state politics. In the early 1970s an economist from Boeing got himself elected on a promise to bring the University of Washington to its knees. He succeeded so well that he frightened his Boeing friends and even himself. One of his primary aims was to eliminate all teaching of Arabic, Persian and Turkish from the state, probably because these languages alone had no friends in the legislature. There was even a threat to impose curriculum by statute to achieve this end.

We did survive, after an “investigation” costing $500,000 ruled that we should change the word “literature” to “civilisations” in our title. The study of Turkish was so weakened that, in effect, it disappeared, and Persian nearly followed. However, Arabic was supported by two-and-a-third positions on the faculty (I was that third). We continue teaching Arabic and have rebuilt the other two languages but we are not allowed to call our degrees “Arabic”, “Turkish” or “Persian”. We teach them up to PhD level but are not allowed to say so. I imagine other arrangements are found across the country and the situation is not as dire as you suggest.

Pierre McKay
University of Washington
Seattle

SIR – Now that the Unitid States have been defeatid and conkerd by the Republik of Texis, we are being forced to speak Teksin. The Teksin languidge has been speerheadid by hundreds of persins, from TV and radio announcirs to tennis playirs, press correspondints, horse trainirs, Republikin and Demicrit senitirs, and even our presidint. A frindly, but insistint crowd.

There is only one other languidge where this has been so manipulatid, and that is Ukraineein. But educatid Ukraneeins don't like it, they preefir to speak Russhin.

Brad Bradlee
El Cerrito, California

Ur-gent appeal

SIR – Urful references are not as uriginal as you urpear to think. Two in a single issue, Ur-beer (“Uncorking the past”, December 22nd) Ur-old (“The power of seven”), is rather urnoying. But I am

surprised that *The Urconomist*, (surely the Ur-newspaper), missed a truly historic urportunity on January 1st—the Ur-o.

Evelyn Hornik
Brussels

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

India, Pakistan and Kashmir

The stand-off on the roof of the world

Jan 17th 2002 | SRINAGAR AND DELHI
From The Economist print edition

AP

Pakistan claims Kashmir; India claims it too. The voices of Kashmiris themselves are hardest to hear

Get article background

SRINAGAR hardly looks like the capital of a state belonging to the world's largest democracy. Soldiers—helmeted, flak-jacketed and in camouflage—can be seen everywhere, behind sandbags, in open-backed lorries covered by netting against hand grenades, arrayed along pavements like lethal bits of shrubbery. The armour and guns are supposed to protect them from armed insurgents opposed to India's rule in Jammu and Kashmir, its only Muslim-majority state. But the security forces provoke hostility among ordinary Kashmiris that feeds and justifies the insurgency. Nearly every merchant in Srinagar's Maisuma Bazaar claims to have been beaten by them. A man who sells utensils says the security forces arrested him and demanded 100,000 rupees (about $2,100) to let him go. Any provocation turns the bazaar into a battlefield.

Kashmir has been the cause of two wars between India and Pakistan, in 1947 and in 1965. It is now threatening to cause another, the first since India and Pakistan declared themselves nuclear powers in 1998. On December 13th terrorists attacked India's parliament in an apparent plot to wipe out its leadership. India blamed groups fighting its rule in Kashmir, and Pakistan for harbouring them. It has responded by moving its armed forces into a threatening posture not seen since the last war in 1971 (fought over the breakaway of East Pakistan, now Bangladesh). Pakistan has mobilised in response.

Tensions have now eased a bit, and Colin Powell, America's secretary of state, hopes to build on that as he visits both countries this week . Under the pressure of India's guns and western diplomacy, Pakistan's self-appointed president, General Pervez Musharraf, went on television on January 12th to denounce religious extremism at home and forswear the use of terrorism to achieve Pakistan's objectives abroad. He banned the two groups India blames for the attack on its parliament, Lashkar-e-Taiba and Jaish-e-Muhammad, and has arrested nearly 2,000 people belonging to those and other groups. India cautiously welcomed General Musharraf's promises and is awaiting further evidence that he intends to carry them out.

Meanwhile, its armed forces will remain poised. So tense is the potential front-line that war could well begin by accident.

It is not obvious why India and Pakistan are prepared to take such risks over a mountainous, landlocked territory with a small population and few natural resources. Kashmir's main asset is the beauty of the Kashmir Valley, which drew tourists until violence in the 1990s drove them away. Investors are equally gun-shy. Agriculture and construction are the mainstays of its economy.

The state is not of vital strategic significance to India. Pakistan largely satisfied its strategic needs in the first war, when it conquered a third of Kashmir's territory, including the areas closest to Rawalpindi, the headquarters of its army. It is unlikely ever to give up that third, which is nominally independent. Nor do many people seriously dispute India's claim to most of low-lying Jammu, which is inhabited mainly by Hindus, and Buddhist Ladakh. The heart of the conflict is the high Kashmir Valley, inhabited mostly by Muslims, which India is determined to keep.

Ideology is the germ of the dispute. Pakistan was created in 1947, at a cost of 1m lives, as a homeland for the sub-continent's Muslims. So Kashmir should be ours, say Pakistanis. But if Kashmir's Muslim majority disqualifies it from belonging to India, what becomes of India's identity as a nation based upon shared culture and geography rather than a common religion? The battle between India's “one-nation” and Pakistan's “two-nation” theories is almost as fierce and as fundamental as that between communism and capitalism.

Enmeshed in it are struggles between principles more familiar to the rest of the world, which each side uses to press its case. Pakistan's main slogan is “self-determination”: the people of Jammu and Kashmir have the right to choose which of the two countries to join, a position upheld by non-binding Security Council resolutions. On its side India has democracy (Pakistan is under one-man rule and has been for half its history) and multi-culturalism (Pakistan is avowedly Islamic and has not integrated its own small minority groups).

Above all, after September 11th, India has the issue of terrorism. The cause of liberating Kashmir from India is kept alive by violence, some of which can only be described as terrorist. Pakistan sponsors such violence by providing refuge and, probably, training and money to the terrorists. India, understandably, is using that sin to bash Pakistan and the whole cause of Kashmiri separatism. Its prime minister, Atal Behari Vajpayee, casts himself as a George Bush on the South Asian front of the international war on terrorism. Unlike Mr Bush, however, Mr Vajpayee cannot go to war without risking the lives of millions of his countrymen.

The maharajah's bargain

Despite Pakistan's claims, Muslim Kashmir was not fated to rebel against mainly Hindu India. It opted for India in 1947 because, 100 years before, India's British rulers sold rulership of the Muslim state to a Hindu maharajah for 7.5m rupees ($50m at current prices). When India and Pakistan were split apart, the then-maharajah tried to dodge the obligation of the 562 princely states of the Raj to join one of the two countries. An invasion by Pakistani tribesmen forced his hand: the maharajah acceded to India in return for military help. Pakistan held on to what it had conquered.

Almost everything about the accession is disputed. Did the maharajah persecute his Muslim subjects? Did the tribesmen leap spontaneously to their defence, or were they agents of Pakistan's new government? Were the British in cahoots with Jawharlal Nehru, Indian's first prime minister, to obtain accession?

These questions might not have mattered so much if India had continued the policies it started with in Kashmir. In acceding, the maharajah surrendered to India powers in just three areas: defence, foreign affairs and communications. Until 1965 the leader of the state's government was allowed to call himself prime minister. Nehru was eager to get popular ratification for the accession. It was he who brought Pakistan's invasion of Kashmir to the notice of the United Nations, which subsequently called on Pakistan to withdraw its forces in preparation for a plebiscite, which would allow Kashmiris to choose between joining India or Pakistan.

Nehru had reason to believe that India would win such a plebiscite. Kashmir's pre-eminent leader at the time was Sheikh Muhammad Abdullah, a Muslim who opposed the maharajah's rule but preferred the secular socialism of Nehru's India to the Muslim ideology of Pakistan. He became Kashmir's prime minister in 1948, and could surely have swung a plebiscite India's way. It never happened, partly because the Pakistanis never withdrew and partly because Nehru, feeling that Kashmir was India's anyway, did not see why he should put accession to a vote.

In 1953, just six years after accession, Sheikh Abdullah was dismissed as prime minister and sent to jail for 11 years on ill-founded suspicions that he was consorting with Pakistan and the United States. Thus began a five-decade fall from grace, during which India progressively integrated Kashmir and alienated it at the same time. In 1957 Kashmir accepted most of the Indian constitution; in 1964 the Indian president's right to dismiss state governments was extended to Kashmir. Sheikh Abdullah made his peace with integration and came back as chief minister in the 1977 elections, the state's first genuinely free ones. But in 1984 his son and successor, Farooq Abdullah, was ousted from power by Indira Gandhi, India's prime minister and Nehru's daughter.

Kashmiris thus came to associate the central government in Delhi and India's brand of democracy with the thwarting of the popular will. Anti-government groups contested the 1987 state elections under the banner of the Muslim United Front. In some areas their victories were annulled with Delhi's help, returning to power a tamed Farooq Abdullah. The cheated victors became founders of the insurrection. Succour came from Pakistan, which now looked a friendlier partner than India. Although Pakistan does not share Kashmir's culture and has fewer adherents to its Sufist version of Islam, it does profess support for self-determination.

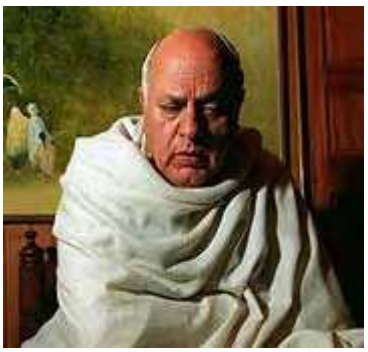
Sumit Ganguly, who teaches at the University of Texas at Austin, has argued that the insurgency stems from democracy's success in raising popular expectations and its simultaneous failure to build institutions to meet those expectations. This points to the nub of the problem. Most Indians think their democratic constitution, applied faithfully, could provide the liberation Kashmiris seek; to most Kashmiris, that constitution is a prison.

Who speaks for Kashmir?

A dozen years of insurgency have left Kashmir with a cast of dazed characters. The Kashmiri people themselves prefer independence to merger with Pakistan but may be (as the Indian government insists) more tired of war than they are eager for either. The militants, who still want a fight, started as a movement of local young men who had “exfiltrated” into Pakistan's side of Kashmir for arming and training, became a more lethal force of Pakistanis and other non-Kashmiris acting at Pakistan's bidding, and may now, after Pakistan's crackdown, mutate again. The Kashmiri government, headed by Farooq Abdullah, is deeply unpopular, and must face the voters again this year.

Separatist politicians, most of them part of the 23-member All-Party Hurriyat Conference, claim to speak for Kashmir's Muslims and probably come closer than anyone else to doing so. But they have yet to test their popularity in elections. Often they are the ventriloquist's dummy for Pakistan, though several would rather have independence than join Pakistan and resent its overbearing role in their struggle. The United States and its allies, which now have troops in the region, are looked upon by many Kashmiris, unrealistically, as potential saviours: when India has finished threatening war, perhaps the big powers can push it to a settlement in Kashmir. Last in this list of actors are the governments of India and Pakistan, the real arbiters of Kashmir's fate.

AP



Unpopular Farooq Abdullah

Until now, India has vacillated between inaction and ill-fated attempts to talk, either with Pakistan or with the separatists. Two events could now change that pattern. One is the crackdown on terrorism. Most Indians put little trust in General Musharraf's promises, a cynicism fuelled by reports that groups such as Lashkar-e-Taiba are still in business under different names. Indian officials, though, seem hopeful that the crackdown will moderate the militancy. “A lot of pressure on Pakistan immediately translates itself to Kashmir,” says a senior Indian official.

Some speculate that Pakistan will dodge charges of backing cross-border terrorism by shifting support back to mainly Kashmiri outfits, such as Hizbul Mujahideen. That could mean a less lethal militancy,

involving fewer suicide attacks and, perhaps, a willingness to talk. Hizbul Mujahideen, or at any rate a faction of it, had announced a short-lived ceasefire in July 2000. India has not spelt out how much and what sort of violence it is prepared to tolerate before demobilising its army and resuming talks with Pakistan. It has demanded an end to “all infiltration”, but is willing to give General Musharraf “all due time” to accomplish this. An end to militant violence could start a hopeful cycle, prompting India to scale back its oppressive 400,000-strong security force in Kashmir, which in turn would lessen the rage that feeds the militants.

A vital election

The second event that might bring change is the state election, expected to be held in September. Persuading separatist politicians to participate would be a coup. Candidates proclaim themselves Indians by taking part under the constitution. Demands for secession would thus be converted into less threatening demands for reform within India. The way might then be open to the settlement that many Indian policymakers are thought to favour: the partition of Kashmir into Indian and Pakistani states along the de facto border, called the Line of Control (LoC), plus some degree of autonomy for both sides. Without some separatists, however, the election will be a fiasco: Kashmiri Muslims will mock it again as phoney, and the government it produces will have no mandate to negotiate peace on their behalf.

The Indian government has made overtures of a sort to the separatists. In 2000 Mr Vajpayee called a unilateral ceasefire during Ramadan, the Muslim holy month, and extended it three times in the hope that the insurgents would respond in kind. They did not, and the ceasefire ended. Mr Vajpayee has promised that Kashmir's next election will be free and fair, and has appointed an intermediary to talk to Kashmiri groups.

Such efforts are undermined, however, by India's failure to understand how deeply the separatists mistrust it and how vulnerable they are to reprisals by Pakistan and—should they settle too cheaply—the scorn of Kashmiris themselves. None trusts India's election commission to guarantee the fairness of the forthcoming vote; most want foreign monitors to do that job, a condition they know the Indian government will reject. Separatist leaders suspect every Indian offer may be another betrayal. Yasin Malik, a member of the Hurriyat's executive council, describes the intermediary as “a clerk who wants to dialogue with 32 parties”, 28 of which are already pro-Indian. Abdul Ghani Lone, another Hurriyat leader, points to the toll of a dozen years of violence: 70,000 Kashmiris dead, he claims (several times the official estimate), 5,000 women “dishonoured”, 3,000 disappearances. “How can we participate in elections?” he asks.

Many Indian analysts believe that Mr Malik and Mr Lone, who, like most Kashmiris, favour *azadi* (independence) over merger with Pakistan, would in the end accept some version of “LoC plus”, Indian shorthand for partition plus autonomy. “*Azadi* can be accommodated within India,” says Amitabh Mattoo of Jawaharlal Nehru University, in Delhi. The harder task may be to persuade Pakistan.

General Musharraf has conceded much since terrorists attacked America in September. He withdrew support for the Taliban in Afghanistan, and has started to shut down a proxy war against India that is Pakistan's only way of promoting its claim to Kashmir. Yet he has declared that “Kashmir runs in our blood” and has called on outside powers to push India into a resolution of the dispute. India rejects outside mediation, as it does a “triangular” discussion with Pakistanis and Kashmiris at the same table, because that would suggest that its sovereignty over Kashmir, or at least the part it now controls, is negotiable. India's best offer is, in effect, a more democratic and humane version of the status quo that Pakistan has been fighting for 50 years to overturn.

Could General Musharraf ever accept this? Indians point to the burden that fighting India has placed on Pakistan's frail economy and to the disfiguring effect on its society of employing Islamic fanatics in that fight. General Musharraf, they hope, would rather modernise Pakistan than continue a futile struggle over Kashmir. Perhaps they are right. But if India is to continue to fly its flag in Srinagar with the consent of Pakistan and the Kashmiri people, democracy and humanity will have to come in torrents. If the drought continues, so will the strife.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Warheads and missiles

Race to the finish

Jan 17th 2002
From The Economist print edition

Nothing deterred

WHEN India's Hindu-nationalist-led government set off five nuclear tests under the Rajasthan desert in May 1998, it claimed to have the threat from China, not Pakistan, in mind. In effect, though, it was trying to blast a shortcut for India to world-power status. But Pakistan's answering blasts were a reminder that India's future is still bound up in the rivalries of the subcontinent. Both sides agree that a nuclear war between them would be a disaster. Both claim they want to avoid an arms race. Neither is doing anything to stop one.

One estimate, based on the amount of militarily-usable plutonium and highly-enriched uranium the two countries are thought to have produced, suggests that India could have anywhere between 45 and 95 nuclear weapons, and Pakistan somewhat fewer (see table). A draft nuclear doctrine presented to the Indian government in 1999 argued for a nuclear posture of "minimum" deterrence, but still seemed to envision weapons numbers in the hundreds.

The rivals
Estimates, end 1999

	Weapons-grade plutonium kg	Weapons-grade uranium kg	Nuclear-weapon equivalent
India	240-395	Small quantity	45-95
Pakistan	1.7-13	585-800	30-52

Source: "India's and Pakistan's Fissile Material and Nuclear Weapons Inventories, End of 1999", by David Albright. October 11th 2000. Institute for Science and International Security

Meanwhile both countries have been developing new missiles, whose flight times—a matter of minutes—mean that, in a crisis, they will need to be held on a hair-trigger: to be launched on warning, or risk being lost to an incoming attack. Both already have short-range nuclear-capable missiles (including some Chinese M-11s for Pakistan). India has said its 2,000-2,500km-range Agni missile is now ready for deployment, and it may be developing an intercontinental-range missile under cover of its Russian-assisted space programme. Pakistan's 1,300km-range Ghauri, supposedly indigenously produced, was bought in from North Korea; an Agni-matching Shaheen-2 is being worked on. The two have agreed informally to notify each other of missile tests, but without verifiable agreements not to deploy their missiles or mount warheads on them, the dangers of nuclear war by miscalculation can only increase.

Coming clean about these nuclear-weapons programmes, some argued, would bring stability through deterrence. Instead, Pakistan, with much smaller conventional forces, saw nuclear weapons as the great equaliser that made possible its army's 1999 incursion at Kargil into Indian-controlled Kashmir. This, no doubt, in turn emboldens the terrorists responsible for the latest crisis.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The politics of Enron

Four committees in search of a scandal

Jan 17th 2002 | WASHINGTON, DC
From The Economist print edition

As Congress cranks into action, there's not much sign of the dirt from Enron reaching the president

Get article background

AS A political scandal, the Enron affair has everything. Money. Influence-peddling. Phone calls to cabinet members. Criminal investigations. High-powered lawyers from the Paula Jones and Florida recount cases. Fevered speculation. Everything, in fact, except evidence of actual wrong-doing by the White House.

Enron was one of the more active participants in the Washington game of money-politics. Between 1990 and 2002, the company or its managers gave $5.9m in political contributions, according to the non-partisan Centre for Responsive Politics. Seventy-one of the 100 senators received Enron largesse; they included 19 of the 23 members of the energy committee, which is investigating the firm's collapse.

The amount of money was large, but not exceptional. In 2000, Enron was 36th in the list of political donors. What made it unusual was the speed of the company's rise into the top tier of lobbyists; its links with the administration (the president's top economic adviser was a consultant; the trade representative served on its advisory board; three cabinet officers took contributions); and the personal links between Kenneth Lay, Enron's boss, and the Bush family. Enron was the 12th-ranking contributor to George Bush's presidential election campaign.

So it was hardly surprising that when the White House admitted, on January 10th, that Mr Lay had called two cabinet officials last autumn, the scandal machine went into overdrive. “Bush's Whitewater”, febrile pundits declared. Democrats demanded to know what the White House knew and when it knew it. In retrospect, the reactions seem excessive. But the conversations took place just as the Securities and Exchange Commission (SEC) was starting an investigation, and just before the credit-rating downgrade that brought Enron's final collapse. Had officials helped the company? Or used privileged information to benefit itself or its friends in Enron?

Well, no. Paul O'Neill, the treasury secretary, says Mr Lay called to give him warning not only of Enron's calamitous finances (nothing to do with the Treasury) but of the possible impact the bankruptcy of America's largest energy trader could have on the energy and commodity markets, which are matters of Treasury concern. Mr O'Neill reckoned the markets could absorb Enron's collapse, and did nothing—not even tell the president. His judgment was vindicated. Nothing happened in the markets, while to have referred the call to the president could have complicated a decision taken on its economic merits.

The other cabinet member, Don Evans, the commerce secretary, took the same decision, adding that Mr Lay told him nothing about Enron that was not anyway being discussed all over the place (ie, the White House had no privileged information). But his account of Mr Lay's phone call differs in one important respect. He says Mr Lay wanted the administration to help him persuade the credit-rating agencies not to downgrade Enron's debt. If true—and Mr Lay denies it—this was a flagrant attempt to win special favours from the administration and the commerce secretary rightly rejected it.

It also turns out that around this time Enron's president, Greg Whalley, repeatedly called a senior Treasury official, Peter Fisher. According to the Treasury, Mr Fisher “inferred that he was being asked to

encourage the banks to extend credit." He too refused. In other words, the pattern is of an administration putting the interests of the country above those of a big donor. Not perhaps, the world's hardest decision. Still, there are no signs of wrong-doing so far, and plenty of signs of right-doing.

That is one reason to think that, as a purely political scandal, the Enron affair may have peaked unless new evidence appears. The other is that Democrats are unsure what to make of it all. At first, some accused the administration of being too cosy with Enron. Others argued it should have done more to help the company, and the thousands of ruined pension-fund holders. Hard to have it both ways.

Henry Waxman, one of the most vocal Democratic congressmen, took a middle course, arguing that the administration knew about Enron's impending disaster and should have warned the public in advance. That way, he says, those who lost their pension funds might have had a chance to bail out. But had the administration issued such a warning it would have precipitated the bankruptcy sooner, the pensioners would still have lost their shirts—and the White House would have stood accused of spooking the public and adding to shareholders' misery.

To make matters yet worse for Democrats, the one person whose actions smack of unethical politicking turns out to be one of their own: Robert Rubin, the former treasury secretary. Mr Rubin is now chairman of the executive committee of Citigroup and, like Mr Whalley, called Mr Fisher, apparently to talk about avoiding the downgrade of Enron's debt (some of it lent by Citigroup). If Mr Whalley and Mr Lay were seeking undue preferences, so was Mr Rubin. But his position is more complicated. What he did was legal, but only because Bill Clinton, in his last days as president, cancelled an executive order that barred top officials from lobbying their old department for five years after leaving office. The order was in place throughout Mr Rubin's tenure at Treasury.

Given these difficulties, Democrats are settling down to a new course: suspending partisan attacks, and waiting to see what the congressional and judicial hearings turn up. There are now four congressional committees, plus investigations by the Justice Department, the Labour Department and the SEC. On top of that comes talk of appointing a special prosecutor.

With the political scandal only a week old, and ever more investigators demanding ever more detail, one would be foolish to think the administration has seen the back of Enron. In particular, almost nothing is known about the sleeping partners in the company's off-balance-sheet transactions: if they turn out to be big political donors, that could be explosive.

A drip-drip of revelations could harm Mr Bush if it reinforces the stereotype of him as too close to big business, especially the Texas energy firms. But to make the affair stick as a scandal, you would have to show either that the administration knew something beforehand and hid it, or that Enron improperly influenced policy through its contacts with the White House.

The moral of the Watergate affair is that it is not the crime that matters but the cover-up. The administration showed early signs of not understanding this point when Mr Bush claimed Mr Lay had not been a particularly close supporter and had helped Mr Bush's Democratic predecessor as governor of Texas in 1994. It turned out that Mr Lay had supported both of them, but had given more to Mr Bush. The vice-president, Dick Cheney, has also been reluctant to provide details of his meetings with Enron officials early in 2001 when formulating a new energy policy. The administration could run into trouble if (say) it had discovered anything suspect about Enron when it was considering Mr Lay as a possible treasury or energy secretary last year—and kept it quiet.

The possibility that Enron improperly influenced the administration also exists—not when the company went bust, but before. Did it exercise undue influence when Mr Bush appointed a new chairman of the Federal Energy Regulatory Commission last summer? According to the former chairman, Curtis Hebert, Mr Lay said he would oppose his appointment unless Mr Hebert changed his mind about a regulatory question concerning access to the national electricity grid. Mr Hebert refused, and was replaced. Did Enron unduly influence Mr Cheney's energy task-force? Did it use its connections improperly when Congress passed a bill, one of whose provisions was to exclude energy-derivatives trading from supervision by the Commodities Futures Trading Commission? This raises questions not for the administration but for Senator Phil Gramm, whose committee approved the provision and whose wife was a former head of the CFTC and is now on Enron's audit committee. Mr Gramm denies any improper influence.

The answers to all these questions may well be "No, Enron did nothing wrong." Even so, debate will keep the saga going, not least because the affair also touches on hard political issues. The wiping out of the

Enron pension funds may well remove what little impetus remains towards partial privatisation of the Social Security (state pensions) system. And two issues are matters of specific federal law:

•**Campaign finance reform**. Last year, this was dead. Although a bill had passed the Senate, the leadership in the House of Representatives was refusing to hold a vote. Now, supporters of the bill are within two votes of forcing a debate. If one were held, the bill might well pass because, in an election year, congressmen will not want to dispute the issue with voters who think the Enron affair epitomises what is wrong with money-politics. In other words, the Enron affair could force the president to sign or veto campaign-finance reform.

•**Pensions reform**. In the Senate, two Democrats, Barbara Boxer and Jon Corzine, have introduced a bill limiting employees' purchases of their employers' shares to 20% of the assets in their 401(K) pension plans. A bill in the House sets the limits at 10%. In the past, attempts to limit popular (and, despite Enron, largely successful) 401(K) plans have met fierce resistance. Battle will now be rejoined.

As a scandal, however, the Enron affair does not justify the attention it has received. As the congressional machines crank away, they may not find anything to make the administration blanch.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Afghan prisoners

A transatlantic rift

Jan 17th 2002 | WASHINGTON, DC
From The Economist print edition

Most Americans can't see why Europeans are so upset

AP

THEY are kept in outdoor cages, and were hooded and drugged during the flight from Afghanistan to Cuba. These images of prisoners in Guantanamo Bay have ignited a quarrel that should disabuse anyone who thought the war against terror might bring America and Europe closer together.

In Europe, the prisoners' fate dominates airwaves and parliaments. Mary Robinson, the United Nations Commissioner for Human Rights, tartly reminded America that “there are international legal obligations that should be respected.” Many Europeans fear the prisoners will not be treated humanely, and want them tried in a properly constituted, preferably civilian, court as soon as possible.

In America, all that matters is how much information can be extracted from these people. The rights of terrorists and the need for prompt trials are more or less irrelevant. It is a case study in the difference between Europeans, concerned for international treaties, and Americans, keener on action and national security.

The issue goes beyond stereotypes. Many American civil-liberties groups also say the detainees should be classified as “prisoners of war” and that those who have committed crimes should be tried. The Defence Department replies that this would raise genuine difficulties in conducting a “new war on terror”. It also raises some phoney ones.

The Pentagon fears that to classify detainees as prisoners-of-war would prevent it interrogating them. The prisoners would be obliged to give only name, rank and serial number—and if they were grilled further, America would be in breach of the Geneva Conventions. That seems dubious. The conventions do allow further questioning. They outlaw the use and threat of violence—but that is outlawed anyway by custom and American law.

Some Americans worry that the Geneva Conventions would also make it impossible to use the new military tribunals, with their greater guarantees against leaking sensitive information. Again, dubious. As Ruth Wedgwood, a law professor at the Johns Hopkins School of Advanced International Studies, points out, the conventions not only permit trials, they seem to prefer military ones, even if held in secret. (When the conventions were drawn up after the second world war, the framers were more worried about civilian kangaroo courts than courts-martial.)

However, the Pentagon is more concerned about two other issues. First, the treatment of prisoners-of-war under the Geneva Conventions does, it argues, raise genuine security worries. The conventions specify that prisoners must be given things like mess kits. The danger of handing al-Qaeda prisoners cutlery is hardly trivial. At the prison riot in Mazar-i-Sharif, they used whatever they could as weapons. In an earlier terrorist trial in New York, a suspect used a comb to stab a prison guard through the eye and into the brain.

The other worry is that by making detainees “prisoners-of-war”, the Pentagon will limit the sorts of indictments it can bring. As Ms Wedgwood argues, the term implies that responsibility for what would normally be crimes is shifted to the state you are fighting for. The prisoners are not personally guilty of

military actions and deaths; so they are treated generously under the conventions, and usually released when hostilities stop. If America applied this principle to al-Qaeda detainees (who are not soldiers of a state, and do not abide by the rules of war), it would not, on the face of it, be able to indict them for attacking military targets or American soldiers.

It has to be said that America has muddied the argument by putting Zacarias Moussaoui, allegedly the 20th hijacker, on trial in a federal district court—raising expectations that other terrorists will get civilian trials. Similarly, its modest indictment of John Walker, “the American Talib” (not trying him for capital offences such as treason), seems less harsh than its treatment of the Guantanamo Bay prisoners. Eventually, America will probably grant some of its detainees the status of prisoners-of-war. Whether this will be enough to placate the Europeans seems doubtful.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Immigration

Who goes there?

Jan 17th 2002 | LOS ANGELES
From The Economist print edition

The war on terrorism may both hinder, and help, Mexican immigrants

Get article background

IN 2000, the last year for which figures are available, some 500 illegal immigrants lost their lives at the Mexican border, most of them Mexicans. This year the total may be even higher. The border will be harder to cross, thanks to the war on terrorism.

Before September 11th, the immigration debate in America centred mostly on economics and social services. In August, George Bush spoke of his respect for people “willing to walk across miles of desert” to look for work in America, and discussed with Vicente Fox, his opposite number in Mexico, ways to “regularise” the position of undocumented Mexicans living in America (around half the illegal population) by offering them an amnesty.

Now, understandably, the immigration debate is all about security. Border policing is being beefed up, with a plan to hire 1,000 more agents over the next five years. A Senate bill sponsored by Edward Kennedy of Massachusetts and Sam Brownback of Kansas proposes new biometric technology for recognising people at points of entry and exit, and better systems for sharing information between government agencies. It will also tighten up rules for student visas.

Opponents of immigration sense that the tide has shifted in their favour. The number of Americans wanting fewer immigrants rose sharply last year, from 41% in June to 58% in October. Talk of an amnesty has faded since Mr Bush's meeting with Mr Fox last August. There have been a couple of showy rounds of arrests. In December, 32 employees of Golden State Transportation, a bus company, were indicted for shuttling undocumented Mexicans—up to 300 a day over several years—to various big cities across the west. Tyson Foods has been accused of providing false Social Security cards and other documents for illegal immigrants working in its chicken plants, with violations cited at 15 plants in nine states.

In fact, the events of September 11th could end up ensuring a smoother passage into America for Mexican migrants. Whatever else he has wrought, Osama bin Laden has not changed the underlying economic facts that drive migration from Mexico (and elsewhere). On the demand side, many American industries—farms, textiles, hotels and so on—depend on cheap labour. A tougher border, which will not deter anyone willing to take the risk of coming, may serve principally to keep illegals in the country longer.

The politics cuts both ways, too. On the face of it, a deep recession would give more power to anti-immigrationists' claims that Mexicans are stealing jobs that belong to Americans. Right on cue, Pat Buchanan, a long-term opponent of immigration, has published a new bestseller, “The Death of the West: How Mass Immigration, Depopulation, and a Dying Faith Are Killing Our Culture and Country” (Dunne Books). A decade ago, he seemed to speak for much of the country. But Latinos have since become a valuable political prize for both parties. Trade unions no longer see Latinos as cheap competition for American workers but as potential union members. Western Republicans are also desperate to shake off their anti-immigrant image. Mr Bush was chosen by his party partly for his rapport with Latino voters, which he had demonstrated in Texas. And Mr Fox still sees Mexicans north of the border as a potential talent pool from which his country may benefit.

The most significant change is probably in America's willingness to turn a blind eye to the contradictions between its economic needs and its immigration laws. Until September 11th undocumented workers, once in the country, were left relatively unpestered. The Tyson Foods and Golden State bus swoops by

the INS indicate a change of heart, but not necessarily towards brutality. The INS stressed that Tyson was being made an example for “exploiting immigrants”—the idea being that people who were not registered were hard to protect. Indeed, “registration” (and the need to identify people, whether they are terrorists or illegal workers) has become something of a mantra, in the same way that “regularisation” was last summer.

In practice, the two are much the same. Like regularisation, registration involves more temporary work permits for new arrivals and changes in the legal status of those already working in America. At ground level, the government is already making it easier for illegal workers to declare themselves without risking deportation. Last month the Los Angeles city council called for illegal immigrants to be allowed driving licences and the right to safe housing, protection under labour laws and health care. Several local governments, including those of Orange County and San Francisco, as well as some banks, now accept Mexican passports or identification cards as proof of identity, without inquiring whether the bearer is legally in America.

None of these things amounts to an amnesty, but they all give illegal migrants, particularly Mexicans, a slightly bigger legal cushion. They also make sense. Ross DeVol, an economist at the Milken Institute, a think-tank in Santa Monica, points out that America's success at incorporating immigrants will be jeopardised if it fails to educate the children of new arrivals, and so provide them with the means to prosper in the way earlier generations of Americans did.

The only sure way to reduce the pressure from immigration is to strengthen the Mexican economy. Last month, State Department officials met their Mexican counterparts in Yucatan to talk about development in the region, which is one of Mexico's poorest and a source of many migrants to America. Juan Hernandez, Mr Fox's minister for Mexicans living abroad, has invited American companies to visit some of Mexico's poorest regions in the hope they may locate there. If Mr Buchanan really wants to stop immigration, he should send his royalties south.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Snowbirds of the south-west

On the road to Heliopolis

Jan 17th 2002 | SUN CITY
From The Economist print edition

AP

Arizona needs those wandering old folk, RVs and all

ANYBODY who drives in Arizona at this time of year will be familiar with the annual migration of "snowbirds"—retired people, that is, seeking to escape the sub-zero temperatures of the north for the balmy desert winter. As many as 300,000 snowbirds flock here each year, so if you haven't seen one before, there's a good chance that your first encounter with this exotic creature will occur when you find yourself stuck behind a Jayco caravan with Nebraska licence plates doing 40mph on a single-lane highway.

Most of Arizona's snowbirds start their journey in the rural mid-west, travelling in so-called recreational vehicles (RVs) and mobile homes. They tend to be less affluent than the urban north-easterners who make up most of Florida's winter-resident stock and who favour the more comfortable nesting afforded by condos. Still, the snowbirds bring an extra $1 billion a year to Arizona. In some towns, such as Yuma, which sees its population double in winter, they keep the local economy ticking over. Snowbirds are culture-vultures too. Roughly a quarter of subscribers to the Arizona Opera Company and the Tucson Symphony are winter residents.

Winter residents occupied 65% of RV spaces and 37% of mobile home spaces in the valleys around Phoenix during the 2000-01 winter season. But their occupancy rates have been in decline since the mid-1990s. One reason is Phoenix's rapid growth: the city recently passed San Diego to become the sixth largest city in the country, and comparisons are made between its traffic congestion and that of southern California. Another factor has been the growing number of permanent elderly settlers in the state. Arizona has seen an increase of 39.5% in its population aged 65 and over since 1990, more than three times the national rate (though in neighbouring Nevada, the number of gambling oldies increased by a staggering 71.5%). Apartment complexes are duly supplanting the cheaper residential parks where snowbirds have traditionally perched.

Such changes make it hard to keep accurate tabs on the snowbirds. Tim Hogan, director of the Centre for Business Research (CBR) at Arizona State University, conducts an annual survey of Arizona's winter residents. Often, he says, researchers will show up to question the owners of RV and mobile home parks only to find superstores and car parks in their place.

Early predictions for this winter are mixed. Mild weather in the north has seen many snowbirds delay their trips, while others may feel reluctant to travel far from home and family in the wake of September 11th. The migration peaks in the new year. With fears of recession, small businesses will be keenly competitive in offering their best rates. Numerous winter residents' associations and RV clubs advertise cheap deals and group incentives. Notorious for their thriftiness, snowbirds frequent the parks and diners that offer the best value—hence the ubiquitous roadside offers. Nor are they constrained by state

loyalties. Southern New Mexico and the Rio Grande valley in Texas have recently become popular snowbird destinations, and are beginning to advertise their relatively cheaper living costs. Better widen those highways.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The dangerous quest of Al Sharpton

Jan 17th 2002
From The Economist print edition

Every white bigot's favourite black

NEW YORKERS are all too familiar with his pompadour hair and pyrotechnic polemics. He materialises miraculously at the first whiff of racial trouble. He is an omnipresent figure on news broadcasts and talk shows. He has even been immortalised in one of the great novels about the city, Tom Wolfe's "The Bonfire of the Vanities", as the unforgettable Reverend Bacon.

Can Al Sharpton go on to prove, as the song has it, that if you can make it in New York you can make it anywhere? Can he turn himself into a fully-fledged national politician? That is clearly his plan. For years he has been patiently opening branches of his National Action Network around the country. Now he is planning to run for the presidency when the chance next comes, in 2004.

Mr Sharpton is in overdrive because he thinks that the top job in black politics is up for grabs. Jesse Jackson, now 60, has held this job for a couple of decades, but he is now punch-drunk with scandals. His admission that he fathered a child with an aide cost him support in the black churches. It also encouraged the media to reveal his habit of bullying companies into giving more contracts to minorities, and then directing those contracts to his friends and relatives.

Mr Jackson's protégé-turned-rival is doing his utmost to ensure that he inherits the mantle. He is reworking his image with the enthusiasm of a Hollywood starlet, losing 80 pounds and exchanging his tracksuits and gaudy gold medallions for well-tailored business suits. He is also taking his brand of agitprop politics far beyond New York. He visited Sudan to condemn its habit of enslaving human beings, a mission many other black leaders have avoided (slavery, as they see it, is a white vice). He went to prison for protesting against the American navy's use of the Puerto Rican island of Vieques for bombing practice. He is soon off to India and Pakistan to avert nuclear war (just what they need, and a typically Jacksonian flourish). No problem is too big these days for the one-time Harlem street-politician.

All the same, he is no Jesse Jackson. A poll comparing the two politicians, taken a couple of years ago, shows how high a mountain Mr Sharpton has to climb. Mr Jackson is known across the country; his would-be replacement is known mainly in the north-east. Mr Jackson enjoys huge support among blacks and some among whites; among blacks, Mr Sharpton barely breaks into positive territory, while whites loathe him. He also has little support among the black establishment, which much prefers even a wounded Jesse Jackson. He has no support in the all-important south. It is unlikely that any other leading Democrat will court him as they once did Mr Jackson.

Mr Sharpton's problem is that too many people regard him as radioactive. He is indelibly remembered for championing Tawana Brawley, the black 15-year-old who falsely alleged that she had been raped and abused by six white men. Mr Sharpton was more interested in "riling up the masses" than in pondering the truth of her accusations.

He is also competing for a post that no longer exists. In the days of Martin Luther King and the young Jesse Jackson, there was no debate about the need for a single black spokesman. Black America was united behind the crusade for civil rights. And there was a dearth of qualified leaders in a community that had been denied both education and a voice in politics.

Today, the situation could hardly be more different. In 2000, according to the Joint Centre for Political

and Economic Studies, Mississippi and Alabama together had more black elected officials than the whole country had in 1970. Blacks run some of the country's biggest cities. The black congressional caucus currently boasts 42 members.

Black politics is also much more complicated than it was a decade ago. Black officials occupy much of their time with such humdrum issues as balancing the books and meeting payrolls. The biggest problems that face the black community, most notably poor school performance and high illegitimacy rates, are not amenable to the clear-cut certainties of the civil-rights era.

The lure of the showman

All this does not mean, however, that Mr Sharpton will fail. He has an extraordinary talent for capturing the headlines and is a highly accomplished, even mesmerising, public speaker. He started preaching at the age of four. At ten he preached to 10,000 at the 1964 World's Fair. He regularly works huge crowds of supporters at his Harlem headquarters into a frenzy.

He also has a genius for picking emotive subjects. His trademark issue, racial profiling (broadly, the arrest of minorities on suspicion), may have lost some of its resonance in the age of terrorism, though he is bravely making common cause with Arab-American organisations to keep the debate alive. But he has another issue in his repertoire that is almost guaranteed to mobilise blacks and infuriate whites: reparations for slavery.

Mr Sharpton also has something else on his side: the media's voracious desire for controversy. The Reverend is a gift-horse for the political talk-shows that fill so many hours of cable television. It is a safe bet that, given a choice between interviewing a serious black politician about local services in Atlanta and interviewing Mr Sharpton about reparations for slavery, the moguls of cable television will choose the showman every time.

This is depressing news for black America. It helps to obscure the fact that America boasts a plethora of successful black politicians. It reinforces the impression that black America is still mired in the politics of protest and victimhood. Black America may now be too successful and sophisticated to need a single spokesman. But the same cannot be said of either mainstream America or the media. Al Sharpton's greatest strength is not his ability to lead his own people. It is his ability to reinforce the prejudices of the white majority.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia's peace process

The FARC's moment of truth

Jan 17th 2002 | SAN VICENTE DEL CAGUAN
From The Economist print edition

AP

Peace remains some way off, but for the first time the government has extracted a concession from the guerrillas

Get article background

RIGHT from the start, the Revolutionary Armed Forces of Colombia (FARC) seemed to show contempt for the peace talks launched by President Andres Pastrana amid much hope three years ago. Manuel Marulanda, the FARC's veteran leader, failed to appear for the opening ceremony, leaving an empty chair. Since then, the talks have yielded no concrete agreement towards ending four decades of internal war. Meanwhile, the 18,000-strong FARC has continued its kidnappings and attacks on isolated towns. Colombians have become increasingly cynical about a peace process in which Mr Pastrana appears to have made all the concessions. Yet, this week, the president once again revealed his talent for surprise.

With less than seven months of his four-year term left, Mr Pastrana finally called the FARC's bluff. Accusing the guerrillas (who had walked out of the talks last October) of intransigence, he said he would send the army back into the “demilitarised zone”, a vast swathe of mountains and tropical savannah the size of the Netherlands that was turned over to them in 1998 as a peace gesture. Such a move would have killed the peace process.

For six days, Colombia was on tenterhooks, as first James LeMoyne, a UN official, and then a group of foreign diplomats conferred with guerrilla leaders beneath palm-thatched huts in a “peace camp” at Los Pozos in the heart of the zone. Finally, on January 14th, with troops poised to reoccupy San Vicente, the zone's main town, came a last-minute reprieve. The FARC had recognised that “guarantees exist” for the talks to continue.

Behind this coded statement lies the first substantive concession by the FARC in three years. It has dropped its insistence on an end to government surveillance of the “demilitarised zone”. Since October, the armed forces have been overflying the zone, patrolling its edges, and restricting access to the area by foreigners. This followed the arrest in August of three IRA men, who had spent five weeks in the zone, apparently training FARC guerrillas in bomb-making and urban insurgency.

Mr Pastrana has now set the FARC another deadline. On January 20th, he must decide whether to renew decrees which provide for the existence of the zone. He has said he will do so only if the FARC agrees to a speedy new timetable for negotiating a ceasefire and an end to kidnappings. The guerrillas will probably

sign up to that, though whether they will act on it before Colombia's presidential election in May is not clear.

For the 90,000 civilians in the zone, the last-minute deal was a matter for celebration. It was greeted with cheering and waving of the Colombian flag by scores of them who had travelled to the Los Pozos camp. For most of them, life under the FARC has been peaceful. San Vicente, a sweltering cattle town, has noisy brothels but few murders. Many of its citizens feared that with the returning army would come the right-wing paramilitary vigilantes of the United Self-Defence Forces of Colombia (AUC). Paramilitary gunmen have recently murdered civilians it claimed were “guerrilla sympathisers” on the edge of the zone; fearing a similar fate, at San Vicente's crowded bus station people queued to leave, some with dismantled beds wrapped in cardboard.

For the rest of Colombia, big questions remain. Despite this week's events, many analysts question the desire of the FARC's leadership to make peace. Yet the balance of forces is moving steadily against the guerrillas. The army, previously an ill-equipped conscript force, now has 50,000 salaried soldiers, a modern helicopter fleet (partly the result of American aid) and better intelligence. Meanwhile, the AUC paramilitaries, who now number over 10,000, have, in many cases by massacring civilians, driven the FARC out of areas it once controlled in northern Colombia.

Secondly, international tolerance for political violence has evaporated since September 11th. Officially, the United States—which will give Colombia some $300m in aid this year, on top of $1.3 billion in 2000—says that the demilitarised zone is a matter for Mr Pastrana. But Washington has never liked it. Now, some members of the Bush administration would like to see American aid, officially restricted to anti-drug operations, used for counter-insurgency, though others are worried about the army's human-rights record and its links with the paramilitaries.

All three of the main candidates to succeed Mr Pastrana favour imposing tighter conditions for the peace talks. This week's events show that the process needs to be recast if it is to produce results. First, a new agenda is required, one that focuses on ending conflict rather than holding philosophical discussions about global economic injustice. Second, international mediation would help. Mr LeMoyne, a former journalist who became the UN representative for Colombia only a fortnight ago, played an important role in achieving this week's deal. With a stronger mandate, he might manage much more. But first the FARC will have to satisfy Mr Pastrana that he will be able to bequeath his rickety peace process to his successor.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Argentina

Survival struggle

Jan 17th 2002 | BUENOS AIRES
From The Economist print edition

Duhalde fails to calm the restive streets

AP

Give us our money back

Get article background

WHEN Argentina's latest president, Eduardo Duhalde, took over the job earlier this month, he knew that the depth of the country's economic and political troubles would give him little time to draw breath. But the continuing strength of public anger and popular protest may have surpassed even his worst fears.

In his first fortnight in office, he has suffered several protests by the middle classes of Buenos Aires, of the sort that unseated Mr Duhalde's two predecessors in December. Crowds of neighbours banging pots and pans are now a regular sight on the street corners of Argentina's capital. This week the protests turned uglier again, as gangs of youths trashed branches of foreign banks in several cities. In Casilda, a quiet town in Sante Fe province, a quarter of the residents staged protests which ended with the destruction of five banks and several public offices. In Jujuy, in the north, 100 people were reported to have volunteered to be crucified in protest at the economy's plight.

For this, Mr Duhalde can still put most of the blame on his predecessors. He inherited a deeply unpopular partial freeze on access to bank accounts. That halted a run on the banks, but has disrupted payments and brought the economy almost to a standstill, as well as inflaming millions of Argentines who have been denied access to their own money. But Mr Duhalde's first measures have made it less likely that he can soon lift the bank controls (see article). And as well as an inevitable devaluation, his government has introduced a dual exchange-rate system (temporarily, it says). After a decade of parity, in the free market the peso quickly plunged, to around 1.85 to the dollar.

Are there more sinister forces behind the protests? Most politicians from Mr Duhalde's Peronists and the opposition Radicals are backing the government. But Carlos Menem, who ruled Argentina from 1989-99, has renewed his long-running feud with the new president, a battle which in the past has threatened to split Peronism in two. In an interview with a Chilean newspaper, Mr Menem complained about “the inability to govern, Duhalde's incompetence and that of almost all the team around him.”

Many Argentines might retort that Mr Menem is hardly in a position to cast rhetorical stones; it was his fiscal profligacy that did more than anything else to get Argentina into its current mess. His argument with Mr Duhalde is also seen as one about how the costs of the devaluation should be divided up. Mr Duhalde's measures have put much of the burden on the banks and privatised utilities, several of which are Spanish-owned. Mr Menem is seen as being close to these businesses.

However, Mr Duhalde has backtracked from his initial populist tone. The IMF, too, is trying to sound conciliatory. It has agreed to postpone for a year repayment of $933m owed to it by Argentina, and said it stood ready to help the government. George Bush, too, offered help, once Argentina has a “sound and sustainable economic plan”. But he warned against “shortcuts” and “half-measures”.

The price of outside help will probably include scrapping the dual exchange rate, more even-handed treatment of the banks, approval of an unpopular budget, with around $8 billion in spending cuts, and renegotiating provincial financing. All that will be a stern test of Mr Duhalde's political support. Argentina could start to recover by the end of this year, an IMF official said this week. But for now, Mr Duhalde is

battling for survival.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Uruguay and Argentina

Stormy summer

Jan 17th 2002 | SAO PAULO
From The Economist print edition

Argentina's woes have left a small neighbour reeling

AP

Life's an empty beach

IN A normal January, at the height of the southern-hemisphere summer, the beaches of Punta del Este, Uruguay's most popular resort, are packed with frolicking Argentines. Not this year: Argentina's economic chaos means that nine out of ten tourists have stayed at home, say Uruguay's travel agents. Argentina's woes may have had surprisingly little effect elsewhere in Latin America, so far at least. But its small neighbour across the River Plate is feeling the pain.

Like Argentina, Uruguay's economy has entered its fourth year of recession, with no sign of recovery. Businesses and trade unionists alike are calling for government action to stimulate the economy. But President Jorge Batlle, facing a bulging deficit and soaring debt, called his coalition leaders together this week to discuss not a fiscal stimulus, but spending cuts and tax rises. He banned a planned march by trade unionists through plutocratic Punta del Este, worried that it might get out of hand.

Argentina's collapse is only the latest in a hail of blows that have rained down on Uruguay. Brazil, its other big neighbour, devalued in 1999. World prices for Uruguay's farm exports are low, while foot-and-mouth struck the cattle herd last year.

The government responded this month by loosening its currency's "crawling peg" for the second time in a year. But most government debt is in dollars. The falling currency, added to budget deficits, has caused total public debt to surge to 46% of GDP, up from 28% in 1998. Unless drastic measures are taken, the figure could hit 60% by December, reckons Standard & Poor's, a credit-rating agency. On January 11th, it said it was reviewing Uruguay's coveted "investment grade" rating; in South America, only Chile shares this status.

Currency weakness is causing problems for several big state-owned banks, too, since their loans are mostly in dollars but their borrowers' incomes are mainly in pesos. The IMF warned in October that annual losses at the state-owned mortgage bank were equal to 1% of GDP, saying its reform was "urgent". The only crumb of comfort is that the private banks are flush with dollars deposited by Argentines.

There is plenty that Mr Batlle could do to avoid following Argentina into debt default. He could privatise some of Uruguay's state firms, whose combined value is equal to 60% of public debt. He could also trim the generous social-security system, which absorbs almost half of public spending. But Uruguayans dislike privatisation and tinkering with their welfare state. And Uruguay's tradition of consensual government, effective in good times, makes such decisions hard.

So Mr Batlle is proposing only gradual reform to public servants' pensions. He also wants to remove the monopolies enjoyed by some state firms, and nudge taxes towards consumption rather than production. His austerity measures aim to keep this year's budget deficit at 2.5% of GDP, down from 4% last year. He must hope gentle belt-tightening and gradual reform is enough to keep Uruguay's investment-grade rating until the tourists come back.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Politics in Canada

Shuffle in the snow

Jan 17th 2002 | OTTAWA
From The Economist print edition

A cabinet shuffle looks forward to the post-Chrétien era

Get article background

EPA

The rise and rise of John Manley

"I WENT for a walk in the snow last night—and I'm staying." So said Jean Chrétien on January 15th, varying the phrase with which Pierre Trudeau announced his sudden resignation as Canada's prime minister in 1984 during a big snowstorm. In the case of Mr Chrétien, Canada's longest-serving Liberal leader since Mr Trudeau, the upshot of the wintry soul-wrestling was a wholesale reshaping of his government, involving some 30 ministerial changes. It looked like an effort to try to arrange the future, at the start of what is probably Mr Chrétien's final year at the top.

Mr Chrétien's big surprise was the catapulting of John Manley, after just 15 months as foreign minister, to a beefed-up post of deputy prime minister. Not only did Mr Chrétien say that he wanted to pass on some day-to-day duties to his new deputy (allowing more time to "reflect" on "big decisions"). But Mr Manley will continue to be in charge of improving border security, a joint effort with the United States after September 11th. Indeed, his vigorous handling of this issue seems to have earned his present promotion. He will also supervise a string of federal agencies, such as the post office and a land-disposal programme, removed from other ministers' care. Finally, he takes over political relations with Ontario, a job which carries influence over the province's 103 Liberal constituency organisations, each of which will send delegates to a party leadership convention.

If Mr Manley performs well in his new job, he stands a good chance of displacing Paul Martin, the long-serving finance minister, as Mr Chrétien's heir-apparent. An Ottawa-born lawyer, Mr Manley (who at 52 is a dozen years younger than Mr Martin) impressed businessmen when as industry minister he led a drive to promote high-technology businesses. Thought a surprising choice for foreign minister, he plunged into improving relations with the United States which had frayed under his predecessor, Lloyd Axworthy. However, Mr Manley was careful not to endorse George Bush's missile-defence plans.

For his new foreign minister, Mr Chrétien has gone outside the cabinet, appointing Bill Graham, the chairman of the House of Commons foreign-affairs committee for seven years and a professor of international law in Toronto. Not since Lester Pearson in 1948 has Canada had a foreign minister as well prepared for the post as Mr Graham. Just as well, perhaps, since Canada will host the G8 summit in June.

Not since 1948 has Canada tapped such a well-prepared foreign minister

Other changes at the top of the government were caused by the abrupt resignation of Brian Tobin, the industry minister. A successful former premier of Newfoundland, Mr Tobin, too, had leadership ambitions, having been enticed back into federal politics only 15 months ago by Mr Chrétien. His job, which offers scope for popular spending initiatives, has gone to Allan Rock, another leadership hopeful from the Liberal left. As a reward for helping to steer tough security laws through parliament, Anne McLellan, the justice minister, has been given Mr Rock's old post of health minister. Ms McLellan, an MP in Alberta, takes over at a tricky time, as Ralph Klein, the conservative premier of that province is challenging the federal government by trying to nudge Alberta's health system towards American lines. Elsewhere, Mr Chrétien has weeded out several mediocre or questioned ministers.

So, having rewarded some leadership contenders and dashed the hopes of others, when might Mr

Chrétien retire? He said he would review the issue next Christmas. The Liberal party's constitution requires it to hold a leadership vote at its next convention in February 2003. That is nearly halfway through the current parliament. Were Mr Chrétien to choose to bow out then, that would give his successor time to work himself into the job before the next election, something Mr Trudeau failed to do. And is Mr Manley now the chosen successor? The prime minister, who has the power to appoint senators, the chief justice and even the governor-general, correctly replied this week that it was for his party to make the choice.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China's middle class

To get rich is glorious

Jan 17th 2002 | BEIJING
From The Economist print edition

China's middle class is expanding rapidly. But what does it want?

HAS China taken in a Trojan horse? The country's accession last month to the World Trade Organisation (WTO), optimists in the West often argue, will make China more prosperous and thereby boost the development of the middle class. This in turn will lead to demands for democratic reform because middle classes naturally want a say in government. Many Chinese scholars argue, however, that if substantial political change does occur in the next few years, the middle class will have little hand in bringing it about.

The growing affluence of urban China would appear to be striking enough evidence that a middle class is already fast emerging. Cities that 15 years ago were grim, Stalinist backwaters are today aglow with the trappings of middle class life. The cities that have benefited most from the flood of foreign investment into China over the past decade—Beijing, Shanghai and Shenzhen—now boast more white collar workers than blue collar ones. The working class, which according to Communist rhetoric still leads the country, is shrinking. The state sector is crumbling. Private enterprise is booming.

The party itself, meanwhile, remains way behind the times. It still will not use the term “middle class” in its official documents, preferring instead such phrases as “those with high incomes”. To recognise such people as a class would turn the ideology of the last 50 years on its head. Mao Zedong sought to eliminate the capitalist-roaders and, despite the more tolerant economic climate of the past 20 years, it was only less than three years ago that the legitimacy of private enterprise was fully recognised in the constitution. President Jiang Zemin caused a furore within the party last July when he suggested that entrepreneurs be officially allowed to join.

In a study of China's social classes published this month, the state-run Chinese Academy of Social Sciences (CASS) also shied away from the term “middle class”, explaining in a footnote that the word “class” has negative connotations. The survey says that this “middle stratum” is still very small, amounting to about 15% of the working population compared with 60% in America. Still, this would amount to about 110m people, or about half of the urban population in employment.

Class divisions

Composition of China's workforce, %

	1952	1978	1988	1999
Administrators/managers	0.6	1.2	2.2	3.6
Owners of private enterprises*	0.2	0.0	0.0	0.6
Owners of private enterprises†	4.1	0.0	3.1	4.2
Technicians/specialists	0.9	3.5	4.8	5.1
Office workers	0.5	1.3	1.7	4.8
Business/service workers	3.1	2.2	6.4	12.0
Manufacturing workers	6.4	19.8	22.4	22.6
Agricultural workers	84.2	67.4	55.8	44.0
Unemployed/underemployed	n/a	4.6	3.6	3.1

Source: "Report on a study of contemporary China's social strata", January 2002
*Eight or more employees †Fewer than eight employees

China's chief negotiator at the WTO accession talks, Long Yongtu, boasted last November that within ten years, some 400m-500m Chinese would enjoy a "middle income", making China's market "much bigger" than that of the United States. An official from the State Information Centre estimated recently that by 2005 China would have 200m middle-income consumers. The official was quoted by a state-run news agency as saying this class could afford to buy cars and housing and spend money on leisure travel. No wonder the foreign business community is salivating over the promises made by China to open up its markets after entering the WTO.

But while no one doubts that there is a burgeoning group of relatively affluent Chinese, the size and political significance of this class is more questionable. Zhang Wanli, another participant in the CASS study, says there is a lot of "journalistic hype" in China about the size of the country's middle class. She says the middle class will still be much closer to 100m in five years' time, its growth constrained by growing urban unemployment as well as depressed incomes and widespread under-employment in the countryside.

Not by bread alone

Some Chinese officials clearly do believe that the middle class could pose a political threat. A study by the party's powerful Central Organisation Department published last May noted that "as the economic standing of the affluent stratum has increased, so too has its desire for greater political standing." The report said that this would inevitably have a "profound impact on social and political life" in China. President Jiang's gesture to businessmen last July was presumably aimed at ensuring their loyalty and deterring them from using their economic power in ways that might threaten the party.

But so far, at least, there is scant evidence that the middle class is seeking anything more than political security. Some Chinese researchers say that entrepreneurs who have applied to join the party or sought election to legislative bodies want to gain social status and security rather than change the system from within. The CASS study says the government has failed to give "full political recognition to the interests of their social stratum" as well as adequate legal protection for their property.

But private businesspeople do not look likely to push for such guarantees, at least not collectively. According to Shen Mingming, director of Beijing University's Research Centre for Contemporary China, the only groups in China with collective political consciousness are those traditionally recognised by the party: workers, peasants and "intellectuals", as graduates are known. In recent years, unemployed workers and downtrodden peasants have staged frequent protests against corruption or violations of their rights. But for all their worries, private entrepreneurs are gaining wealth faster than any other group, thanks to market-oriented reforms. "During this transitional process, these people are direct beneficiaries, they are getting a free ride, so why should they bother" trying to secure political changes, argues Mr Shen.

Chinese scholars often point to the experiences of other Asian countries, particularly South Korea and Taiwan, which maintained their authoritarian systems through decades of rapid economic growth and despite the emergence of a big middle class. For the time being, officials in China seem more concerned about the polarisation of wealth. But the experience of those countries shows that the days of middle class rage come in the end.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Afghanistan

Reluctant donors

Jan 17th 2002
From The Economist print edition

The $15 billion it could take to rebuild Afghanistan may prove hard to collect

EPA

In need of some refurbishment

ON JANUARY 20th-21st, the rich countries of the world gather in Tokyo for a conference on Afghanistan. The hope is that Japan, America, the European Union and Saudi Arabia will turn out their pockets for a fund to rebuild Afghanistan, a task the World Bank, the Asian Development Bank and the United Nations Development Programme (UNDP) reckoned this week will cost $15 billion over ten years—about a quarter less than the aid programmes in Lebanon, Bosnia and East Timor on a *per capita* basis, despite the scale of reconstruction required. Afghanistan lacks roads, schools and hospitals, a functioning police and judicial system, a trusted currency and a central bank. The country will have to be cleared of mines. Houses, factories and offices, turned to rubble by 22 years of war, will have to be rebuilt. The land, prone to drought, needs to be properly irrigated again.

The interim government would also like to rebuild the national museum and re-erect two fifth-century Buddhas destroyed by the Taliban last year. Western governments are determined that women will play a much bigger role in Afghan society than they were allowed to do under the repressive Taliban regime. Unfortunately, whatever their rhetoric, it is unlikely that the sponsoring countries will chip in the sum required.

After all, the UN is finding it tough to raise even the comparatively tiny sums that the new Afghan administration needs to keep itself going. When the UN asked for an initial $20m after the conference in Bonn last month which established an interim government, $18m was pledged, but less than $10m was actually handed over. The government, which the UN says is broke, needs $100m to meet running costs, like paying civil servants who have been working for free. Afghanistan's plight will be eased, a bit, when America releases $221m in reserves held there by the Afghan central bank, mainly in gold, perhaps at the end of next week. It had been withheld because America did not recognise the Taliban as the legitimate government. Afghanistan is also likely to be able to start collecting overflight fees from commercial airlines, of around $23m a year.

Japan has indicated that it could give as much as $500m over the next two-and-a-half years. But the UN thinks total costs will be around $5 billion over that period, covering a six-month interim government and then an elected transitional government. Aid officials fear that America, which has shown little appetite for “nation-building” under President Bush, may feel it has already done more than its fair share in paying for the bulk of the military campaign. America contributed 80% of the food aid donated to the UN World Food Programme for Afghanistan in the last fiscal year. However, some American aid efforts seemed to be aimed mostly at reassuring a domestic audience. Apart from the famous peanut butter dropped by bombers, money from American children was used to buy hairbrushes, sweets and toys—hardly the most pressing needs. But unless America helps Afghanistan generously now, it may remain the failed state that fostered such devastating terrorism.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Asian diplomacy

Koizumi's depreciation tour

Jan 17th 2002 | TOKYO
From The Economist print edition

Japan's prime minister woos a nervous South-East Asia

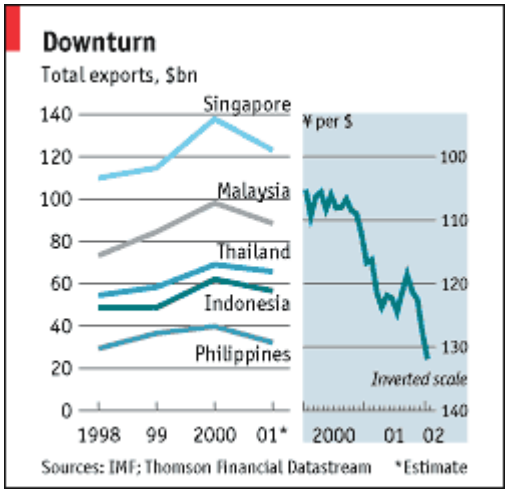
Reuters

WITH Asian exports slumping, security fears mounting and a new round of world trade talks beginning, Junichiro Koizumi had plenty to discuss with his counterparts in South-East Asia during his five-nation tour, ending with a speech in Singapore on January 14th. Mr Koizumi stressed the merits of using global agreements to lower trade barriers, implicitly dismissing the regionalism that many Asian politicians espouse. He offered to throw Japan's security forces—especially its coast guard—more fully into the battle against piracy and arms smuggling. But since the prime minister's themes were general ones, to be followed at best by a string of low-key initiatives, they could hardly vie for attention with the awkward news of the moment: a weak yen.

As Mr Koizumi began his trip, Japan's currency was trading below 133 to the dollar, after shedding 6% of its value in a month. That slide has rightly worried its high-tech north-eastern neighbours, South Korea and Taiwan, but ought to pose little threat to South-East Asia, since all its economies save Singapore's are too rudimentary to compete with Japanese exports. Moreover, the yen recovered slightly during Mr Koizumi's tour, after officials hinted that they did not favour a steeper drop. None of that stopped China, however, from trying to score some points.

Its government has been grumbling for weeks, through the state press, that a weaker yen is not neighbourly. Just after Mr Koizumi's tour ended, it broadcast a more forceful complaint. On January 15th, Dai Xianglong, the central bank governor, warned that China might be forced to devalue if the yen does fall further—a move that would put far more pressure on South-East Asian exporters. He urged Japan to “avoid the domino effect”. Malaysia's prime minister, Mahathir Mohamad, had raised similar fears as Mr Koizumi passed through, saying that his country (which, unlike the other four economies visited, still fixes its exchange rate) might have to abandon its peg if China devalues.

This dance looks much like the one following East Asia's 1997-98 collapse. Then, Japan's $80 billion in aid went largely unappreciated, while China won plaudits around the region for refusing to devalue the yuan: a policy shift that would anyway have done more harm than good to its own economy. If China devalues this time, Japan will receive much of the blame, regardless of whether a weak yen helps to stir its own economy from its decade-long slump.



Neighbourly Koizumi

Although the other economies he visited—Indonesia, Thailand and the Philippines—raised few worries about the yen, Mr Koizumi faced a tougher task over free-trade initiatives. Unlike Singapore, with which Mr Koizumi signed a new free-trade deal to spice up his visit, those three economies have big agricultural sectors. Any balanced effort to lower trade barriers would face resistance from Japanese farmers. Mr Koizuimi did not rule anything out, but there are no concrete concessions in sight.

That makes it even harder to respond to China's other recent shot across the bows: a deal announced in November to push for a free-trade area between itself and the ten-member Association of South-East

Asian Nations (ASEAN). While that announcement sparked Japanese fears of being locked out, it also presaged a less obvious attack on Japan's global trade and investment goals. Unlike most of its Asian neighbours, Japan has for decades held to an open, inclusive approach to Asian trade talks (though it has also remained fairly protectionist once the talking starts). It has thus resisted deals that aim to leave out other trading partners, especially the United States. Japan could, for example, ask to join, along with South Korea, the new free-trade area its neighbours are talking about. That would draw neat economic boundaries around the “ASEAN-plus-three” talking shop that already exists. But it would also give narrow regionalists, such as Malaysia's Dr Mahathir, the exclusive (and less sensible) arrangement they seek.

Instead, Mr Koizumi has responded by continuing to champion a broader approach. For starters, he suggested last week that any cosier ties in the region ought to include Australia and New Zealand, two countries that, along with Singapore, have shared Japan's open approach. In the Singapore speech, he also made clear that such an ASEAN-plus-five “community” must continue to push for closer links to Europe and America, rather than turning inward. Mercifully, the United States itself has helped matters by remaining uncharacteristically quiet about China's November proposal. When Dr Mahathir proposed a similar arrangement in 1990 (essentially a previous version of ASEAN-plus-three), the American backlash won him some easy converts. Is Asia at last seeing a Japan that speaks for itself?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Foreign firms in Indonesia

Local angles

Jan 17th 2002 | JAKARTA
From The Economist print edition

Business learns new ways

SETTING up a project in Indonesia used to be fairly straightforward for a foreign firm. You fixed the deal with the relevant authorities in Jakarta. The writ of central government extended, more or less unopposed, throughout the country's 32 provinces. But since the end of the Suharto regime, power has been steadily flowing to local communities. The central government, tormented by fears of national disintegration, has passed legislation that funnels a quarter of the national budget directly to local treasuries. Local assemblies have been granted some taxation and regulatory powers and are passing laws some of which challenge central government decisions.

Some foreign firms have been quick to adapt. When a consortium led by Newmont Mining, from the United States, inaugurated a copper and gold mine at Batu Hijau, on the island of Sumbawa, two years ago, it threw a party for local people rather than Jakarta's big shots, and sacrificed a bull as tradition prescribed. But Cemex, a Mexican cement giant, is in dispute with three provinces that are contesting promises made to the firm by central government. It is said to be confused and frustrated, and may have made things worse by running newspaper advertisements in connection with the dispute. “Loudspeaker diplomacy,” say its critics.

A number of disputes turn on purely local matters. Last year, Unocal Indonesia, an energy company, and Kelian Equatorial Mining were involved in conflicts over land rights and the environment. While such disputes have happened in the past, the weapon used to fight them, legislation passed by local assemblies, is new.

Some foreign companies pine for officials in Jakarta to intervene on their behalf. Sometimes, when pushed, they will try to. But when central government finds itself involved, as it did recently on the Cemex dispute, it has tended to side with the local governments. Taking a realistic view of the new Indonesia, Newmont keeps the locals sweet by setting up foundations to provide improved health and education. In the long run, the company hopes, good relations with its neighbours will make any disputes less frequent and more manageable. A representative of British Petroleum says it is important to involve the community. “We are trying to get away from the old dependency model that says, ‘Father or Mother BP will provide.' ” This strategy involves getting into the often messy world of “bottom-up” development economics, requiring a good knowledge of local politics and customs. In the province of Irian Jaya, representatives of BP have held dozens of meetings with residents, officials, activists and journalists.

Greater sensitivity to local needs, especially by firms in industries that inevitably do violence to the environment, is clearly a good thing. As local governments get more power, companies are forced to pay more attention to demands for land compensation, community development and environmental responsibility. But co-operation between business and local politicians can have perverse effects. If local development money is not administered with transparency, it may get diverted into the pockets of the local elite. Local governments, knowing that the government in Jakarta would be unlikely to protect the multinationals, might be tempted to inaugurate costly lawsuits, hoping for large out-of-court settlements.

The result could be that companies could come to support a system of localised corruption. The new way of doing business in Indonesia would then sadly resemble the old one.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Philippines

Happy anniversary, Mrs President

Jan 17th 2002 | MANILA
From The Economist print edition

The spectre of people power still haunts Gloria Macapagal Arroyo

EPA

I'm in charge, says Gloria

THE first anniversary, on January 20th, of the “people power” uprising that installed Gloria Macapagal Arroyo as president of the Philippines will be an uncomfortable reminder to her that the office she gained in one revolution might all too easily be taken away by another. The mill that has been grinding out rumours of some kind of coup for nearly her entire year in office has been working at double speed recently. As the anniversary approached, thousands of police and troops were deploying in Manila to forestall any attempt to challenge Mrs Arroyo's authority.

Mrs Arroyo insists that her government is secure, and she is probably right. She won something of a popular mandate in elections in May, when her coalition captured control of Congress. Most members of the mainstream opposition recognize her as the legitimate president. In general, the armed forces, the police and the civil service appear loyal to her. Communist and Muslim separatist guerrillas are an irritation rather than countervailing forces to be reckoned with. And with them, she has the Americans to help. This week, America disptached the first of some 650 troops to the Philippines, to help train the army combat the Muslim militant Abu Sayyaf group. Abu Sayyaf has been linked to al-Qaeda, making this the first example of America extending the war against terror beyond Afghanistan.

The supposed threat to Mrs Arroyo comes from the allies of the man she replaced as president, Joseph Estrada. Mr Estrada was popularly elected in 1998. When constitutional processes failed to decide the truth or falsehood of accusations that he was breathtakingly corrupt, tens of thousands of his opponents took to the streets of the capital in a demonstration of what they called “people power”. After the chiefs of the armed forces joined the demonstrators, Mr Estrada abandoned the presidential palace. His vice-president, Mrs Arroyo, took over.

More than three months later, after Mr Estrada was arrested, thousands of his followers tried but failed to storm the presidential palace. Mr Estrada himself, who is in police custody, denies that he is behind any further attempt to unseat Mrs Arroyo. However, he insists that he is still the rightful president. The ex-president is now on trial for his life for corruption, but the proceedings are going badly for the prosecution, and there is a strong possibility that Mr Estrada will be acquitted. An acquittal would critically weaken the justification for the uprising that removed him.

The ex-president still has the sympathy of a many poor Filipinos who believed in his election promise to deliver them from poverty. The rumour mill also suggests that he enjoys the support of disgruntled members of the armed forces and police. But Mr Estrada's followers are unlikely ever again to muster the numbers on the streets that would constitute sufficient “people power” to force Mrs Arroyo out of office. And no section of the security forces has ever managed a successful coup without popular backing. Many, however, have tried and failed.

The government complains that all this talk of political instability is scaring off investors, and thus interfering with its main task of re-invigorating the Philippines' creaking economy. In this task, Mrs Arroyo has had some success. However, the perception of instability is often exacerbated by government paranoia. In May, when Mr Estrada's followers tried to storm the presidential palace, Mrs Arroyo could have treated the event simply as a riot—which is what it was. Instead, she declared what she called a “state of rebellion”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America and Central Asia

The Yankees are coming

Jan 17th 2002 | ALMATY
From The Economist print edition

And the Russians are upset

OVER the past few weeks, high-level foreign visitors have been streaming into the Central Asian republics. During a ten-day period, three delegations from the United States Congress passed through and expressed their gratitude to regional leaders for their contribution to the American-led war against terrorism, centred on neighbouring Afghanistan. Two senior officials from Russia and one from China have also made the trip. In short, three important countries that intend to be involved in Central Asia in the post-September 11th world have thought it opportune to make an appearance.

In contrast to the cheerful Americans, the Russian visitors, Igor Ivanov, the foreign minister, and Gennady Seleznyov, speaker of the Russian parliament, had few kind words to say. The American government's decision to deploy 3,000 American and allied troops in Kirgizstan, at a time when the war in Afghanistan has almost come to a close, has been unpleasant news for the Russians.

It will be three times the number of American soldiers based in Uzbekistan during the height of the Afghan campaign and raises the prospect of their much longer stay in the region than originally planned and consented to by the Russians. “I would not approve of the appearance of permanent United States military bases in Central Asia,” said Mr Seleznyov in the Kazakhstan capital, Astana, last week, looking decidedly sour.

How long the Americans want to stay is not yet known. Kirgizstan has agreed to a one-year deployment of the troops near the airport of its capital Bishkek, viewing it as a contribution to the anti-terror campaign. A tent city for the soldiers is being built. The Kirgiz will have been encouraged to make the Americans feel at home by the subsequent news that Uzbekistan has been awarded $100 million in aid for its support of the military operation. Money will no doubt be a comforter should Kirgizstan incur Russia's wrath.

The Russians have historically regarded Central Asia as their own backyard, as have the Chinese to some extent. The five Central Asia republics were part of the Soviet Union. But Russia has gradually been losing ground over the past decade and has been fighting to regain it. When American oil firms first began to take an interest in the rich energy resources of the region in the early and mid-1990s and to invest tens of millions of dollars, especially in Kazakhstan, Russia did not have the financial means to compete.

Nor did it have a clear-cut Central Asia policy. The United States did: to help reduce the five republics' dependence on Russia and to pursue new pipeline routes to bring oil to international markets without going through Russia. Inevitably, the Central Asian republics started to slip away. Only Tajikistan, crippled by civil war, remained in the fold and was host to Russian soldiers who are still there.

Russia saw an opportunity to regain influence when Kirgizstan was attacked by guerrillas from the Islamic Movement of Uzbekistan in the summer of 1999. In the hour of need, Russia proved to be a helpful ally. Under Russia's decisive president, Vladimir Putin, Kazakhstan and Kirgizstan, each with a sizeable Russian population, were reclaimed as allies. Uzbekistan was also no longer quite so distant.

America's newly-discovered enthusiasm for Central Area is therefore making Russia and China fairly

nervous. Russia particularly fears losing its predominance in the region, now that the threat of Islamic fundamentalism has been reduced. The Russian leadership is painfully aware that it still does not have the financial or military resources to pit itself against the United States, let alone to woo back the countries of Central Asia a second time.

Yerlan Karin, a Kazakhstani political scientist, says, “The geopolitical realities have changed and the United States has become Central Asia's third neighbour.” He says it will take time for all the parties to adjust, a process that will not proceed without tension.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hong Kong's amahs

Striking move

Jan 17th 2002 | HONG KONG
From The Economist print edition

The territory is considering tightening belts—its maids'

SUNDAYS are always a festive occasion in Hong Kong, because the city's 230,000 maids—most of whom are Filipinas—have their day off and tend to spend it celebrating in the squares. Lately, however, the ladies, in between their picnics and dancing contests, have also been demonstrating. The atmosphere has not quite reached the explosive mixture of carnival and riot seen last year in Manila, when the maids' compatriots took to the streets and threw out their president. Nonetheless, the anger in Hong Kong is real.

At issue is a proposal by an association that claims to represent the maids' employers to cut their minimum wage by 14%, from HK$3,670 ($470) per month now. If it goes through, it would be the second cut in the maids' minimum wage in three years.

To many in Hong Kong, this is an outrage. *Amahs*, as the domestic helpers are called in Cantonese, are already among the poorest people in the territory. In the Philippines, the issue has top priority. Some 10% of the country's population works overseas—the women mostly as maids or bar girls, the men as construction workers. Gloria Macapagal Arroyo, the Philippine president, raised the issue with Hong Kong's leaders during a recent visit. And four Philippine senators flew over last week to lobby on the amahs' behalf.

They all are missing the point, says Joseph Law, who drafted the proposal. The real issue, he says, is the plight of Hong Kong's middle class. The city is once again in recession. People are losing their jobs. And not hiring an *amah* is simply no longer an option. After all, says Mr Law, “somebody has to look after the children.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and the Palestinians

Building a Palestinian state, in reverse

Jan 17th 2002 | RAFAH
From The Economist print edition

As tit-for-tat violence is rekindled, hopes for a peaceful conclusion grow remote

EPA

“THE hoax of the so-called ceasefire is cancelled, cancelled, cancelled,” declared the al-Aqsa Brigades, a Palestinian militia linked to Yasser Arafat's Fatah movement, in a statement on January 14th. It had just claimed responsibility for killing two Israeli settlers and a soldier in the West Bank. Three days later, one of its own men was killed.

The return to arms was spurred by Israel's (unacknowledged) assassination of Raed Karmi, the leader of the Brigades in Tulkarm, a West Bank town. He had been “wanted” by Israel for his alleged role in the killing of nine Israelis; an earlier attempt to do away with him had failed. He was also planning more attacks, said Binyamin Ben-Eliezer, Israel's defence minister. Fatah insisted that Mr Karmi had observed Mr Arafat's December 16th ceasefire call, and that so, until now, had the Brigades. Fatah also reaffirmed its own commitment to the ceasefire, even though, as it admitted, “the ground is burning”.

It is. Hamas ditched the ceasefire on January 9th, killing four Israeli soldiers just across the Israeli border from Rafah, a town in southern Gaza. This was, it said, in retaliation for the army's killing of three teenagers in Gaza last month. In further tit-for-tat violence, Israel demolished 59 houses in Rafah refugee camp. Also, after the seizure, on January 3rd, of a shipment of weapons allegedly bound for the Palestinian Authority (PA), Israel bulldozed the runway at Gaza's long-defunct airport, and rocketed police and naval positions.

Israel claims that the houses in Rafah were “mostly” abandoned and were being used for smuggling arms from Egypt. The United Nations agency responsible for Palestinian refugees said that 90% of the shelters were inhabited and that 619 people are now homeless. This, the agency added, is in addition to the 284 homes, housing over 3,000 Palestinians, most of them refugees, that the army has destroyed in Gaza over the past year, 145 in Rafah alone. One reason for the destruction, UN officials believe, is Israel's desire to carve out a new “security zone” between Gaza and Egypt.

Palestinians in Gaza shrug their shoulders. All they know is that dozens more families are squatting in tents, the airport has been closed for a year, the runway will cost $6m to repair and that the Palestinian police had made a pretty good fist of keeping the recent quiet in Rafah, long a violent frontline. “This Israeli government is determined to destroy the prospect of a Palestinian state, institution by institution,” said an airport official, “It forbids us even to dream.”

Forcibly confined in Ramallah, his West Bank headquarters, Mr Arafat founders like a tug in a storm, now urging his people to remain “steadfast”, now half-heartedly ordering the arrest of PA officials allegedly

involved in the arms-shipment imbroglio. After the surge in violence in the West Bank, his policemen also arrested Ahmad Saadat, leader of a radical secular faction, the Popular Front for the Liberation of Palestine (PFLP). Israel, which says that Mr Saadat was the brain behind the assassination of Rahavam Zeevi, an Israeli minister, last October, had made his capture one of the conditions for any furlough Mr Arafat receives from his Ramallah internment.

The news of Mr Saadat's detention caused protests in Gaza, Ramallah and Bethlehem, led by PFLP activists but not confined to them. The protesters blamed their leaders for “caving in” to Israeli and American duress, despite the devastation in Rafah, the killing of Mr Karmi and the siege that cuts the West Bank and Gaza into 200 disconnected enclaves.

According to UN economists, it is this blockade, more than anything else, that has cost the Palestinian economy at least $2.4 billion since the *intifada* broke out in September 2000, sending unemployment soaring to 35% in the West Bank and 50% in Gaza, and leaving 46% of all Palestinians officially impoverished. The “closure”, says just about every Palestinian, is the main reason why no ceasefire will hold.

Military assault, economic deprivation and the attritional destruction of Mr Arafat and his Palestinian Authority are, or so Palestinians insist, Ariel Sharon's way of banishing the dream that Israel's 34-year occupation of the West Bank and Gaza will eventually end. “I don't know if Israel is deliberately destroying the potential for Palestinian statehood,” said a UN diplomat involved in trying to restore a political process. “But I do know that any viable state needs to control its borders and police, and meet its people's basic economic needs. By damaging these institutions and capacities, Israel prevents the Palestinians from managing their own affairs. It is a kind of state-building in reverse.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Libya and America

From foe into friend?

Jan 17th 2002
From The Economist print edition

Libya tries to climb back into America's good books

LAST week Libya and America were talking to each other in London about ways to remove Libya's name from the roster of states sponsoring terrorism, where it has been for 22 years. The talks, their second since September 11th, were led by Richard Burns, the State Department's Middle East man, and Musa Kusa, Muammar Qaddafi's trusted head of external intelligence.

Removing the 22-year-old tag comes at a price. America, and Britain too, demand that Libya accepts responsibility for the crimes of its officials in bombing a Pan-Am jet over Lockerbie—a convenient formula for absolving Mr Qaddafi of personal blame—and that it pays compensation for what happened. While all involved appear keen on a resolution, nobody seems ready to budge ahead of a final judgment on the Lockerbie bombing.

The appeal of Abdelbaset Megrahi, the Libyan intelligence agent convicted of mass murder, opens on January 23rd and is expected to last four weeks. Libya's ambassador to London, Muhammed Alzwai, is already reported as saying that his country would pay compensation should Mr Megrahi finally be found guilty. In America's courts, the victims' families are again pressing claims for a payout of $10 billion.

This is a hefty sum, but still less than the country's annual oil revenue. Libya has billions of dollars frozen in America, plus billions more held in foreign reserve, and diplomats say the sum is negotiable. Although his sanctions-suffering people may resent seeing more of their wealth diverted abroad, Mr Qaddafi may judge it a fair price to pay for the lifting of UN sanctions and the return of an American ambassador to Tripoli after a 30-year absence.

Bilateral ties have been buoyed by the common war on Islamist militants. Since September 11th, Mr Qaddafi has been straining to present himself as America's friend. He condemned the suicide attacks as “horrifying” and described American retaliation as an act of self-defence. It is reported that Libya supplied America with intelligence on Osama bin Laden's allies in the Philippines, where Libya had posed as an honest hostage-broker with the Abu Sayyaf group. In return, America has added the Islamic Fighting Group, Libya's most effective opposition, to its terror list.

Hand-in-hand with his drive for international rehabilitation, Mr Qaddafi appears bent on an uncharacteristically normal process of internal reform. Reports from Libya speak of a steady dismantling of the worldwide *mathaba*, the revolutionary cells policing his reign of terror. In their place, say dissidents in London, Mr Qaddafi is seeking to restore power to the armed forces. Since an aborted military coup in October 1993, Libya's army has been little more than a motley crew of rival militias.

But how readily can the Great Leader shed his revolutionary stripes? In Tripoli, words rarely match the deeds. The minister of finance, sentenced to one year's prison for corruption amid a flurry of publicity last November, retains his cabinet post. And for all the talk of an end to revolutionary zeal, Mr Kusa, the Americans' chief negotiating partner, is the head of the *mathaba* and a one-time self-declared assassin of Libyan dissidents in London.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Disarming Sierra Leone

Pax Leone

Jan 17th 2002
From The Economist print edition

Is this gravely wounded country finally ready for peace?

Get article background

ELEVEN rebel commanders strode into a United Nations office, bristling with assault rifles, mortars and rocket-propelled grenade launchers. But the UN staff who met them were not afraid. Colonel Peace Eagle and his comrades had come to surrender their arms, not to fire them. Since May last year, over 46,000 Sierra Leonean fighters have disarmed themselves, as part of an ambitious UN programme that finished last week.

Both the rebels of the Revolutionary United Front (RUF) and the pro-government militiamen of the Civil Defence Forces have taken part. More than 15,000 weapons and 1.3m rounds of ammunition have been handed over. Part of this mountain of ordnance will be destroyed, and part melted down and fashioned into hoes and other tools. Some guns will be tossed on to a symbolic bonfire, at a ceremony presided over by Sierra Leone's president, Ahmed Tejan Kabbah, and planned for January 18th.

AP

Bringing in the harvest

After handing over their weapons, fighters are put up in "demobilisation centres", where they are offered helpful tips on how to cope with civilian life.Then they are given 300,000 leone ($152) and sent home. There, local "reintegration programmes" try to turn them into carpenters or plumbers or barbers. The younger ones—and one in seven of those disarmed by the UN is a child—are supposed to go back to school.

The UN believes that most weapons have now been collected. Foreign peacekeepers will continue to work with the local police to mop up the leftovers. The peacekeeping force in Sierra Leone, with over 17,000 troops, is the UN's largest anywhere. The sheer number of blue helmets seems to have made the country safer. According to Margaret Novicki, a UN spokeswoman, it is now possible to travel along most roads without being held up by goons with guns. In the past, even well-armed foreign troops have repeatedly been taken hostage.

Politically, too, there has been progress. The UN is helping to set up a war-crimes tribunal; a chief prosecutor should be appointed soon. A truth and reconciliation commission, modelled on South Africa's, may shed light on atrocities committed by both sides. Elections are scheduled for May. From next week, citizens will be able to register to vote. The RUF, whose members are best known for chopping off civilians' limbs, claims that it is now almost a normal political party.

So after ten years of civil war and some 43,000 deaths, is peace finally dawning on Sierra Leone? Don't count on it. Guns are still easy to acquire. Arms embargoes on Sierra Leone and neighbouring Liberia—whose ruler, Charles Taylor, has long supplied the RUF—have proved leaky. There is not enough money to reintegrate all the newly gunless killers into society. Moreover, the RUF's commitment to peaceful politics is bound to be doubtful. When the war-crimes tribunal starts prosecuting their leaders, the rebels may well object. And if they fail to win power by the ballot in May, will they return to the bush?

Nor are the RUF the only potential troublemakers. Ex-militiamen may find it equally hard to adapt to the poverty and tedium of civilian life. The British are trying to teach the Sierra Leonean army to be more disciplined, but its old habit of mounting coups could be difficult to kick. That said, the UN and the British

do seem determined to prevent the country from descending once more into chaos.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

SADC

Mr Mugabe, please be nice

Jan 17th 2002 | JOHANNESBURG
From The Economist print edition

A regional body that finds it hard to be tough on errant members

LONG shadows from Zimbabwe, Congo and Angola were cast as leaders from the Southern African Development Community (SADC), meeting in Malawi this week, failed yet again to take action over the wars and repression that mar their region. The conflicts in Congo and Angola, still grinding on, were on the agenda. But even more on everyone's mind was the worsening situation in Zimbabwe, the region's second largest economy, as it approaches its March presidential election.

Robert Mugabe, Zimbabwe's president, left the meeting early, but smiling. He had been asked politely by his fellow statesmen to have a free and fair vote. However nicely they asked, it may be too late for that. Last week his army chief hinted that he would not allow the opposition to take office, even if it was allowed to win.

But Mr Mugabe may have heard harsher words in private, especially from South Africa's Thabo Mbeki. At any rate, he did whisk some fine promises out of his hat: international observers would be allowed to monitor the election, and foreign journalists to report on it. In addition, an oppressive press bill was pulled from parliament. But Mr Mugabe has made promises before and promptly broken them, and the bill could always return.

The gentle public treatment of Mr Mugabe by his fellow leaders was in keeping with SADC's usual line. Formed in 1980 by states trying to ease their economic dependence on apartheid South Africa, the regional body now has 14 members and aspires to be some sort of European Union. That seems a forlorn hope. Though the group's 17 cumbersome institutions are being cut to just four, and a new headquarters has been opened in Gaborone, the capital of Botswana, SADC still depends on external donors for 90% of its budget, and has no teeth to ensure that members stick by the protocols they sign on trade, drug-smuggling or water-sharing.

It is made up of very different countries. South Africa, an economic whale swimming with minnows, accounts for some two-thirds of the region's $178 billion GDP, and is far keener to trade with the rest of the world than with other African countries. Nor is it willing to turn its economic clout to political purposes.

Although some of South Africa's nearest neighbours broadly share its own free political and economic outlook, too many of SADC's members stick to old-fashioned ways, including oppressing their citizens and keeping state control of the economy.

Zimbabwe, Congo, Angola and Namibia have formed a fairly intractable block ever since 1998 when Mr Mugabe, who then chaired SADC's defence committee, arranged for troops to be rushed to the aid of Congo's embattled president, the late Laurent Kabila. The same four countries now prevent any of the public SADC criticism of Zimbabwe that South Africa, Botswana and, perhaps, Mozambique, might like to hear.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iran's embattled parliament

Rattling the supreme one

Jan 17th 2002 | TEHRAN
From The Economist print edition

The speaker forces a concession out of the supreme leader

AP

Loqmanian thanks Karrubi

LOFTILY above direct involvement in internal politics, Iran's supreme leader, Ayatollah Ali Khamenei, had appeared to endorse the crude methods now being employed by the country's conservative establishment to put down the reform-minded parliament. This week, however, he was rattled into action which, at least on the face of it, favours the reformists.

Mehdi Karrubi, the speaker of parliament, threatened to paralyse it if Hossein Loqmanian, a reformist deputy who was jailed last month for speaking his mind in parliament, were not set free. By hastily pardoning Mr Loqmanian, Mr Khamenei has staved off a constitutional crisis—but perhaps not for long.

Just about everyone, except for the conservative judges who deemed he had “insulted” them, had decried Mr Loqmanian's ten-month sentence as a violation of the parliamentary immunity given him under the constitution. Reformist deputies were further unnerved by reports that the anti-corruption drive, ordered by the supreme leader, might threaten as many as 60 of them with court cases.

On January 5th, Mr Karrubi, who is normally conciliatory and good at cutting deals, let it be known that he had received an assurance that Mr Loqmanian would be released. But ten days later, the deputy still languished in jail. Mr Karrubi then demanded in a speech to parliament that the supreme leader “remedy” the situation. If he did not, the speaker's chair would remain empty.

Although he calls himself a reformist, Mr Karrubi is a far cry from the radicals whom conservatives accuse of trying to overturn the 1979 Islamic revolution. He is a cleric, and his small party, made up of clerics, has good relations with the conservatives. So when he described Mr Loqmanian's sentence as an “assault”, people took notice. He carefully cited past occasions when the courts had stopped short of jailing deputies. For good measure, he took a swipe at the supreme leader's anti-corruption drive, hinting that it was “selective”.

Mr Khamenei accommodated the speaker, but in a way calculated to infuriate the reformists. When Mr Loqmanian left prison on Tuesday afternoon, he did so not as an exonerated victim of a miscarriage of justice, but as a pardoned criminal. Iranians are now wondering what will happen when the next deputy is jailed (the Supreme Court is currently reviewing the prison sentences of two of them) or when they are swept into court by the anti-corruption drive.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Germany's election

It's the economy, Dummkopf!

Jan 17th 2002 | FRANKFURT
From The Economist print edition

The leading candidates in this year's general election in Germany are now known. So is the battleground

Get article background

IN RED, the holder: Gerhard Schröder, leader of the Social Democratic Party and Germany's chancellor. In black, the conservative challenger: Edmund Stoiber, premier of Bavaria, head of that state's Christian Social Union, and now adopted champion too of its big sister party elsewhere in the country, the Christian Democrats. Between now and September's general election, though the pair will be trading blows over all sorts of issues, the fiercest exchanges will be over the sorry state of the economy.

Mr Schröder knows the ground well. In 1998, a lacklustre economy gave him a chance to unseat Helmut Kohl after 16 years in office. Until a year or so ago, all looked rosy. The economy grew by 3% in 2000, the best rate since the post-reunification bounce in 1991. Unemployment was heading downwards, towards the 3.5m that Mr Schröder had promised by election year. He pushed through economic reforms—not enough for economic liberals, perhaps, but more than the left of his party and the trade unions would have liked.

But these days the bad economic news seems unremitting. The economy grew by only 0.6% in 2001, says a first estimate, having shrunk in the second half of last year. Although it is probably at its low point right now, economists expect only slow growth in the first half of this year, not enough to put a lot of people back into work. Unemployment has been rising for a year and is close to 4m. This is why Mr Stoiber, whose Bavarian fief is flourishing, sees his chance.

The world's downturn has hit Germany hard, but the problems are long-term

Mr Schröder blames bad luck. The world's downturn, he says, has hit Germany hard. Yes, but the problems are long-term: since 1992, GDP growth has averaged a mere 1.5%. Part of the trouble is that, despite subsidies by the bucket-load, the former East Germany has not caught up with the west, as economic theory implies it should. Since 1997, it has been slipping further behind. That said, unemployment is rising in both east and west.

The chancellor, at least, is at work. This week he said that in April one of several regional schemes to create low-paid jobs would be extended to the whole country. The government will subsidise the child-benefit and social-security payments of low-paid workers, increasing their take-home pay out of a given

gross wage. It is debatable whether this will create even the 20,000-30,000 jobs the government predicts. To be fair to Mr Schröder, this is not his first step in roughly the right direction. Income-tax rates were cut at the start of last year, with further reductions to come in 2003 and 2005. A rule of Mr Kohl's time, letting older unemployed people draw jobless benefit without seeking work, was allowed to expire in 2000.

Other changes, though, have been more mixed. “Secondary” workers, such as women with working husbands, in part-time jobs paying *euro*325 ($290) or less a month, used to be treated more favourably, for tax and social-security purposes, than others. Their less generous treatment now has put some secondary workers off. Because others have filled their places, the net effect on employment is probably slight, but hard to judge.

Outside the labour market, Mr Schröder has scored higher marks. Company taxation has been cut—although small firms grumble at having missed out. The abolition on January 1st of capital-gains tax on shares held by one company in another is encouraging firms to sell their stakes and put the capital to better use. At the start of the year, subsidies also kicked in for private and company pensions—the first step towards relieving the looming demographic burden on the state system.

The effects of such reforms will take time to show. In the short run, moreover, Mr Schröder has indeed been unlucky. Besides the global downturn, rising oil and food prices took the joy out of last year's tax cut. His finance minister, Hans Eichel, striving to balance the books, has no room to loosen the budget, for example by bringing next year's cuts forward. This year's deficit may be close to the 3% limit at which, under the EU stability pact, Germany would be liable for a humiliating fine.

While Mr Schröder struggles, Mr Stoiber can parade Bavaria's success

While Mr Schröder struggles, Mr Stoiber can parade Bavaria's success. Munich, its capital, is home to eight of the 30 companies in the DAX stockmarket index, more than any other city. Media and information-technology companies have flooded in. Unemployment is low: Freising, a few kilometres north-east of Munich, enjoys the country's lowest rate.

Would Mr Stoiber do better than Mr Schröder in the chancellery? Despite Bavaria's good record, says Thomas Hueck of HypoVereinsbank in Munich, it may be unwise to expect too much. Mr Stoiber has sensibly sold off some of his state's industrial holdings, notably in energy. The proceeds were invested cannily, in fostering new industries and infrastructure. Fine. But picking winners requires luck as well as judgment that may be harder to reproduce on a national scale.

More generally, Mr Stoiber is no economic liberal. He opposes Mr Schröder's proposals to ease immigration and is no fan of scrapping Germany's restrictive laws on shop-opening hours. When local companies get into trouble his ministers rally round, talking to bankers and unions to see what can be done. Remember the “social” element of the Christian Social Union, which, in Mr Hueck's words, “can and must influence the economy”. What Germany really needs is less state influence altogether.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Italy, its prime minister and the law

He's not safe yet

Jan 17th 2002 | MILAN
From The Economist print edition

The government is upping the pressure on judges trying the prime minister

The trials and tribulations of Silvio Berlusconi

Case	Business	Date	Charge	Result	Sentence	First appeal	Final appeal
All Iberian	Offshore company	1996–99	Illegal financing of political party	Guilty	28 mths jail	Granted by statute of limitation*	Same as first
Fininvest and others	Holding company	1996–2001	Four counts of corruption; bribing financial police	Guilty	33 mths jail	Granted by statute of limitation on three counts*; acquitted on one count	Acquitted on all counts
Medusa	Films	1997–2001	False accounting	Guilty	16 mths jail	Acquitted	Same as first
Villa Macherio	Real estate	1998–99	Tax fraud	Statute of limitation*		Covered by amnesty	
Fininvest	Holding company	1998‡	False accounting	In process			
Mondadori	Publishing	2000–01	Corruption; bribing a judge	Case thrown out‡		Granted by statute of limitation*	Same as first
Purchase of player	AC Milan football club	2001	False accounting	In process			
SME	Food	2000	Corruption; bribing judges	In process			
Fininvest Group	Holding company	§	False accounting				
Telecinco (in Spain)	Television		Tax fraud, breach of antitrust laws	Inquiry under way			

*Under the Italian penal code, the statute of limitation extinguishes the crime
†Trial restarted for the third time on March 27th 2001
‡Preliminary hearing
§Prosecutors have applied for a preliminary hearing for charges to be brought

Source: *The Economist*

Get article background

SINCE Silvio Berlusconi, Italy's richest man, became its prime minister seven months ago, he has continued to fight tooth and nail to fend off an array of charges of corruption that have, over many years, been laid against him. He has had some success. In October he was acquitted of bribing tax inspectors, though two former top people in his family firm were convicted. Over the years, he has had various convictions overturned by statute of limitation, since the cases have dragged on for so long (see table). But he still faces one very serious charge, of bribing judges. This month, the justice minister nearly stymied this case by a procedural device. But not quite. At least until the summer, Mr Berlusconi will have to sweat.

The device was an order by the justice minister, Roberto Castelli, that Guido Brambilla, one of three judges hearing a judges-bribing case against Mr Berlusconi, should be transferred to another job in the Milan courts. Without Mr Brambilla on the panel of judges, the trial, which began two years ago, would almost certainly have had to start again. But on January 10th Milan's appeals-court president was able, under the constitution, to overrule the justice minister, so letting the case go on.

This complicated saga began last year when Mr Brambilla's request for a transfer to a new job was approved by the main body that oversees the courts' working. In October, the justice ministry agreed to a request from the Milan court for a three-month deferral so that Mr Brambilla could finish hearing the trial. This is normal practice in complicated and important cases. The reason is simple: a trial must start again from scratch unless both defence and prosecution agree to a new judge to replace the one no longer able to sit.

When the trial dragged on longer than expected (partly because of a string of legal objections raised by defence lawyers, including Mr Berlusconi's), the Milan court was confidently expecting the justice ministry to agree to a second deferral, as the rules permit. In an unprecedented move, Mr Castelli refused to agree, even declaring that the first deferral was illegitimate because the wrong person had signed it. He ordered Mr Brambilla's immediate transfer to his new job. Now, however, thanks to the ruling of the Milanese appeals-court president, Mr Brambilla will continue to hear the trial. The court president said

that Mr Brambilla should be seconded back to the trial until its conclusion. One reason that such powers are available is to prevent political interference in trials.

Critics called Mr Castelli's decision an attempt to browbeat or provoke the judiciary in Milan. Defence lawyers and Mr Berlusconi's supporters, reacting as outspokenly to this latest ruling as they have to earlier ones, are trying to create the impression that the Milanese judges are not impartial enough to hear the case. The uproar caused by Mr Castelli's unsuccessful order is but the latest controversy surrounding this trial. Mr Berlusconi has persistently accused prosecutors in Milan of a politically motivated campaign against him. Since he became prime minister last summer, members of his government have stepped up their attacks on the Milanese prosecutors and judges.

The controversial trial which Mr Brambilla is judging is known as the SME case. In 1985, Carlo De Benedetti, a wealthy Italian businessman who part-owns a newspaper group fiercely opposed to Mr Berlusconi, signed a contract to buy SME, a food and catering conglomerate, from IRI, a large state-owned group. Mr Berlusconi and another businessman formed a company to mount a higher bid for SME. After a court ruling in Rome in 1986 that his contract was not valid, Mr De Benedetti's deal with IRI fell through.

In the trial, the prosecution, relying heavily on evidence from bank accounts in Switzerland, alleges that a trail of money connects one of Mr Berlusconi's companies via intermediaries to judges in Rome. The alleged intermediaries include Cesare Previti, a former lawyer to Mr Berlusconi's companies who is a close friend, an MP in his Forza Italia party, and a former defence minister. Both he and Mr Berlusconi deny the charges. Mr Previti is also on trial in Milan in two other judge-bribing cases.

Two of Mr Berlusconi's defence lawyers, Gaetano Pecorella and Niccolo Ghedini, are also Forza Italia MPs. Mr Pecorella chairs parliament's judicial affairs committee, of which Mr Ghedini is also a member. Last year this committee approved a bill to make evidence acquired from overseas jurisdictions inadmissible in Italian courts if it was not obtained under the precise letter of an international convention. Shortly after the bill was enacted in October, Mr Pecorella and Mr Ghedini used the new legislation to mount a challenge, rejected by the SME trial judges, to the admissibility of the prosecution's evidence from Swiss bank accounts.

Mr Berlusconi has, in any event, had some good news on the legal front. In October he emerged unscathed in another corruption case when the final appeals court acquitted him on three charges of bribing tax inspectors examining accounts of his Fininvest companies. This verdict overturned a ruling from Milan's appeals court that the charges were quashed merely under a statute of limitation. However, the final appeals court said that bribery had taken place and convicted two former Fininvest executives. But the court found not enough evidence to prove that Mr Berlusconi knew of the payment of bribes which his brother, Paolo Berlusconi, said he had arranged under duress.

Moreover, the prime minister has a way out of two other criminal cases. Within the next two months a bill, already introduced by his government, to change false-accounting legislation will probably be enacted. This bill, in effect, decriminalises most offences of false accounting for private companies. As a result, prosecutors in Milan are likely to ask for Mr Berlusconi's acquittal or may invoke a statute of limitation in two trials in which he is up on charges of false accounting .

So that leaves the biggest of all Mr Berlusconi's legal tribulations: his trial for bribery over SME. It is expected to finish this summer. Until then, however much his administration belabours the judges elsewhere, Italy's prime minister will not be entirely out of the woods.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

France's businessmen

Hogtied

Jan 17th 2002 | LYONS
From The Economist print edition

With its firm labour law and high taxes, can France compete?

“FREEDOM of enterprise is not the freedom to sack people.” Thus Lionel Jospin, three months from his second bid to become president of France. But is the Socialist prime minister serious, or just playing to the electoral gallery and to his Communist partners in government?

Mr Jospin's declaration on January 15th came after France's Constitutional Council, had thrown out parts of a new law on “social modernisation” designed, after job cuts last year by groups such as Marks & Spencer and Danone, to make redundancy decisions much harder and costlier for employers. The law would permit job cuts only when all other means of corporate salvation had been exhausted or when technological change put a company's very survival at stake or when restructuring was “indispensable”. That, said the council, was “a manifestly excessive attack on freedom of enterprise.”

The Communists and the trade unions were outraged, Mr Jospin and his labour minister, Elisabeth Guigou, embarrassed. The employers, whose organisation, Medef, was in congress in Lyons, went on the attack. The bosses' strategy is simple: present a compelling case that unless France reforms the legal and fiscal environment of business, it will fall behind its competitors. The tactics, too, are simple: in the run-up to the presidential and parliamentary elections, harass the politicians. “We're not making choices between any parties or candidates,” says Medef's chairman, Ernest-Antoine Seillière, “but we are ready to judge if and when they endorse our proposals.”

Those proposals are a nine-point list of resolutions keenly endorsed by the congress even as—well out of sight and earshot—some 7,000 or more trade-union demonstrators accused Medef of seeking to turn back France's industrial clock with its ideas for privatised pensions, a later retirement age, compulsory training (and the acceptance of any job offer, regardless of pay or location) for the unemployed; and local rather than national wage bargaining.

The bosses think they are putting the clock forward. They note that only 9% of the workforce, mostly in the public sector, is unionised. France, they argue, cannot go on taking its wealth- and job-creating entrepreneurs for granted. Even when some modest tax-cutting is completed next year, its top rate of income tax, for example, will be 52.5%, as against Germany's planned 42% or Britain's current 40%. Add other taxes—including a wealth tax—and umpteen social charges, and it is no surprise that French outward investment has surged ahead of the capital coming in.

The bosses' lament

If France is to compete, the politicians have no choice, says Medef, but to carry out the tax, health-care and social-security reforms so far ducked by Mr Jospin's government. Mr Seillière challenged whatever new government may emerge to write into law a clear objective: in its potential five years of life to lower compulsory charges to the euro-zone average.

The bosses' irritation is not theirs alone. Socialists such as Laurent Fabius, the finance minister, and Dominique Strauss-Kahn, an influential predecessor, are always arguing for lower taxes and greater freedom in the workplace. Mr Jospin has not proved as anti-business as his rhetoric might suggest. His government has privatised more than did its conservative predecessor, and even the 35-hour-week that it imposed—and that Medef hates—has at least been softened by tax incentives and more flexible work rules.

The bosses' real problem may lie on the right. President Jacques Chirac, it is true, gave them a public pat

on the back last week, but such encouragement has been rare. Of various right-wing luminaries, only Alain Madelin, the Thatcherite leader of the Liberal Democrats, has a programme that mirrors Medef's demands—and he barely registers on the list of presidential hopefuls. Medef has a lot of harassing still to do.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France, corruption and the law

The bitterness of a judge

Jan 17th 2002 | PARIS
From The Economist print edition

A crusading judge says that crooked politicians are getting away with it

EPA

Halphen gives the politicians omega

“THE political cases are just like the Mafia ones. No one talks.” So what is a French investigating judge, charged to look into murky affairs that allegedly reach right up to the president himself, to do? In the case of Eric Halphen he resigns in disgust, at the tender age of 42, and tells a newspaper of his anger.

It is easy to see why. His inquiries into kickbacks tacked on to public-works contracts in the Paris region in the 1980s and early 1990s began almost eight years ago; they have implicated all the main political parties. In particular they have tarnished the reputations of Jacques Chirac, at the time mayor of Paris and now France's president, and Jean Tiberi, his successor as conservative mayor.

But they have convicted no one of importance. At every twist in the saga, Mr Halphen claims, his quest was met by politically motivated sabotage. For example, in 1996 when he arrived with a warrant to search Mr Tiberi's apartment, the police—on orders from above, later ruled illegal—refused to help. Meanwhile, he says, he was under surveillance, even fearing for his life. Last summer, when he summoned Mr Chirac to give evidence, the president ignored him, citing the immunity conferred on an incumbent president by the constitution. Finally, late last year Mr Halphen was taken off the case.

Predictably, the political right is dismissing Mr Halphen, who says that Richard Nixon resigned as America's president for sins “a thousand times less” than those attributed to Mr Chirac, as a leftist bent on a crusade to topple the presidency regardless of proof. But the political left, even as it praises Mr Halphen, has surely been just as obstructive. Certainly, it is gloating over the expected early retirement of Eva Joly and the departure of Laurence Vichnievsky, two judges whose investigations have not only seen Roland Dumas, once a Socialist foreign minister and formerly head of France's Constitutional Council, convicted of corruption but have also threatened several others on the left.

In Mr Halphen's view “justice works at two speeds” in France: the ordinary criminal gets hammered while the politically powerful get off scot-free. With presidential elections only three months away, that will doubtless confirm the electorate's cynicism—and encourage the politicians to be as hypocritical as ever.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Gibraltar

A deal too far?

Jan 17th 2002 | MADRID
From The Economist print edition

Britain and Spain are talking of joint sovereignty. Gibraltarians are twitchy

Get article background

WHEN two friends have been involved in a long tug-of-war, why not agree to share? That could be the future for Gibraltar, a tiny British colony on the southern tip of Spain. The British and Spanish governments agreed last autumn to reach a deal about it by this summer. The likeliest result—though the British foreign office frantically denies press reports that such a deal is all but done already—would be an arrangement for the two countries, indefinitely, to administer the territory jointly under both flags.

An accord—if duly carried out—would end constant squabbles between two countries both of which belong to the European Union and NATO, and whose current prime ministers get on notably well. Other EU countries, sick of the row holding up serious business, are in favour. Not at all so the 30,000 Gibraltarians. And under the colony's 1969 constitution, which Britain insists it will honour, they cannot be made to “pass under the sovereignty of another state against their freely and democratically expressed wishes.”

Gibraltarians are proud of “the Rock's” history as a citadel that served Britain well after it was ceded by Spain, in perpetuity, in 1713. And they vividly remember the decades before 1975, when General Franco ruled Spain with an iron fist and, in 1969, slammed shut the border. It was not reopened properly until 1986, several years after Spain became a democracy. Many Gibraltarians now would like independence. Told that is not possible, they say they would want to remain British, while still enjoying cordial relations with their Spanish neighbours, exemption from EU customs regulations and a pleasant Mediterranean lifestyle.

Britain and Spain say Gibraltarians would gain from a change. Till now, Spain had always insisted that—even if not right away—it wanted outright control of the territory. (Indeed, it never ceded the isthmus linking the Rock to the mainland at all; in the 19th century, the British simply moved in.) Spain would really, instead of grudglingly, accept Gibraltar's membership of the EU; it is now there under Britain's hat. Gibraltarians would keep their British nationality, with guarantees for their way of life. They could have greater self-government, and practical benefits: easy access to Spanish hospitals, as many telephone lines as they like, no more of today's tedious queues as Spanish officials carry out extra-vigilant custom checks at the border.

Tosh, say most Gibraltarians. Spanish governments have always bullied us and we don't trust them. We are already members of the EU, and entitled to many of those so-called concessions. Anyway, how do you jointly administer a territory with institutions, schools and a legal system based solidly on British practice?

The negotiators say they will press on to a comprehensive agreement that answers that question by the summer. Britain's foreign secretary, Jack Straw, plans to visit the colony, hoping to calm Gibraltarian fears in person.

Could he succeed? Conscious of sceptical public opinion, Gibraltar's chief minister, Peter Caruana, has refused to attend the talks (to which he is invited as part of the British delegation) unless he has virtual power of veto. But he has had two informal meetings with Spain's top negotiator and many more with the British. Some of the Rock's bigger businessmen favour rapprochement. Younger Gibraltarians are less anti-Spanish than their elders. But most people in the colony do not want to know. They speak of double betrayal, and fear bullying from London and Madrid alike if they fail to support the agreement that may be proffered.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

Edmund Stoiber to lead Germany?

Jan 17th 2002
From The Economist print edition

Can a Bavarian lay an old ghost and become Germany's chancellor?

THE easy part is over. For months, his own reluctance was the chief obstacle between Edmund Stoiber and his nomination as the opposition's candidate for Germany's chancellor. When Bavaria's premier said a fortnight ago that he was willing to lead the conservative alliance in this September's general election, the chances of his only rival, Angela Merkel, crumbled fast. Last week she stood aside.

Remarkable stuff, given that Mr Stoiber's Christian Social Union (CSU), which exists only in his home state, is very much the little sister of Mrs Merkel's Christian Democratic Union, which represents the conservative mainstream elsewhere. As the Christian Democrats' chairman, Mrs Merkel could in most years have expected to be the nominee. But her party is still tainted by a financial scandal that exploded in 1999, and she has no power base within it. Mr Stoiber is free of such stains, and in Bavaria has built a reputation for economic competence which a struggling Germany now badly needs.

Conventional wisdom says Mr Stoiber cannot beat Mr Schröder

Yes, but can he beat Gerhard Schröder, the Social Democrat now in office? Conventional wisdom says not. Bavarian politics, dominated for decades by the CSU, does not travel well. The southern state of 12m people, Germany's biggest in area, is mainly Catholic. Mr Stoiber staunchly defends crucifixes in its classrooms. Bavaria enjoys a strong sense of identity, even nationhood, forged by centuries of independence. Though CSU voters range from the flinty right to the soft middle, most Germans outside the state reckon the party is to the right of the Christian Democrats. Witness, say, Mr Stoiber's criticism of the government's plan to loosen curbs on immigration as “mad”.

All of this means that liberal northerners, both Protestant and secular, mistrust the CSU. The last Bavarian premier to tilt at the chancellorship, Franz Josef Strauss, was drubbed by Helmut Schmidt in 1980. Already Mr Schröder and his trusties are depicting Mr Stoiber, Strauss's campaign manager 22 years ago, as a divisive right-winger. That's yesterday's politics, retorts the challenger. Can he prove that, by laying his mentor's ghost?

Obvious similarities mark Mr Stoiber's task and the one that faced Strauss

Obvious similarities mark Mr Stoiber's task and the one that faced Strauss. Mr Stoiber is not only Bavarian, Catholic and conservative, but also, like Strauss, faces a Social Democratic incumbent who is personally popular even though his party is sagging in the opinion polls. But note the differences too. Strauss fitted, even revelled in, the Bavarian stereotype: stocky, fond of his beer, and willing to call a spade a bloody shovel, often in thick dialect. Mr Stoiber, though also often outspoken, looks quite different, his slim, elegant figure rounded off by parted silver hair and a technocrat's spectacles. He doesn't like beer, and likes noisy beer halls even less. Had you to guess his origins, you would put them somewhere nearer the North Sea than the Alps.

Mr Stoiber may even be too unlike Strauss for his own good. He can appear ascetic and stiff. Mr Schröder, by contrast, combines serious statesmanship with an appetite for *Currywurst*. In some respects, though, voters think the challenger and chancellor are alike. Both, say pollsters, are seen as strong leaders, decisive, “winners”—qualities that, combined with his name as an economic manager, give Mr Stoiber a chance of wresting the centre ground from Mr Schröder.

A close race looks likely

To succeed, Mr Stoiber must make the most of another difference between himself and Strauss. For a start, he begins on good terms with the Christian Democrats. Without the bigger party's active help outside Bavaria—from the top brass giving television interviews to activists getting the vote out—it is hard

to see him winning. In 1980, there was bad blood from the start. Strauss had pushed himself forward for the crown but was chosen as the candidate only after a vote of the two parties'MPs. The long shadow of the Christian Democrats' Helmut Kohl, who had stepped aside, and resentment between the conservative parties blighted the campaign. The Bavarians blamed the Christian Democrats for not really backing their man.

Mr Stoiber has been anything but pushy, often declaring that running Bavaria was honour enough. Even when the economy slumped, raising the right's chances, he waited for the Christian Democrats to come to him. One after another, after pondering the opinion polls, senior Christian Democrats lined up behind him and pressed Mrs Merkel to give way.

The right is united, this time

So co-operation should be better. In any case, the Christian Democrats will be fighting to win parliamentary seats of their own. Though ambitious young Christian Democrats, such as Roland Koch, the premier of Hesse, are waiting for their chance next time, no one in the larger party casts a shadow like Mr Kohl's in 1980.

A close race looks likely: Mr Stoiber has a far better chance than Strauss ever did. The latest polls, indeed, put the combined conservatives ahead of the Social Democrats for the first time in several months. Plenty, though, could go wrong. His economic reputation could be smudged by the Kirch group, a debt-laden media company whose largest creditor is the Bayerische Landesbank, half-owned by Mr Stoiber's state. Mr Schröder should fare better among eastern Germans, thanks to the Bavarian's hostility to generous transfers from rich states like his to poor ones like theirs. After the election, Mr Schröder may have a wider choice of coalition partners than Mr Stoiber, whose only realistic deal would be with the Free Democrats, Germany's liberals.

His Bavarian background may hinder him not just because of its hard-right tag. Mr Stoiber's fairly smooth rise within so dominant a state party has required him to fight fewer battles than his opponent. Mr Schröder has seen off rivals in Lower Saxony, where he was premier, and in the national party too. And he beat Mr Kohl in 1998. Mr Stoiber has won his first skirmish of the election year, against Mrs Merkel. Now for the real thing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Railways

Come back, Dr Beeching

Jan 17th 2002
From The Economist print edition

Britain has far too many railways. That's part of the explanation for the current mess

THE government's grand plan for Britain's railways, published on January 15th by the Strategic Rail Authority, has a shiny new tilting express train on its cover. Inside are pictures of happy families munching crisps as they sit in uncrowded carriages watching the countryside speed by. The document is unlikely to improve the mood of British commuters: the contrast between the glad, confident forecasts in the strategic plan and the reality of everyday rail travel is too sharp for comfort.

The railways' problems started 18 months ago when a fatal accident exposed several decades' worth of backlog in maintenance and investment. The railways, though privatised, are heavily dependent on the government, and existing financial plans had not made provision for this extra work. Railtrack, the company which owns the track, consequently went bankrupt. Its future has not yet been determined. Commuters, meanwhile, are angry, because services are delayed. Which means that the railways are making millions of people cross every day, and they are blaming the government.

The new plan is unlikely to lift their gloom. It offered little new cash—an extra £4.5 billion ($6.5 billion) was filched from the roads budget, but will not make much of a dent—and few new ideas on how to make things better.

The railways' problems are infinitely complex, which is why solving them has eluded so many ministers and so many changes of management at Railtrack. But they are also quite simple. Too little money is spread too thinly.

Broadly, the railways divide into three categories:

•Inter-city routes. Rail is highly efficient over medium-to-long distances. Beyond 200 miles, air travel starts to gain an advantage—especially since the advent of the low-cost airlines—but between most of Britain's major cities, rail is the sensible way to travel. As a result, routes such as the fast east coast line that links London to York and Edinburgh are highly profitable.

•Commuter lines. Heavy usage at peak periods and light usage at other times makes it hard for commuter railways to make money. But, because alternative forms of transport are often inconvenient, commuters are a captive market. So although commuter fares have risen fast over the past few years, commuter journeys have also increased, and subsidies have fallen. In London, for instance, subsidies to commuter lines are due to disappear in two years' time.

•Branch lines. These are the least efficient bit of the railways, and thus the most promising target for cuts.

Although it is a small country, Britain has the second largest rail network in Europe. That, oddly, is because of the perverse

incentives that regulation often gives rise to. In the late 19th century, the government limited railway companies' profits to a set rate of return on assets. The only way of increasing their profits, therefore, was to increase their asset base; so they built lines out into the distant corners of the British Isles. As a result, Britain's railways are used much less intensively than those in most other countries (see table); and under-utilisation of capacity is the main reason why government has to fork out cash to keep lines open.

Small country, lots of railway

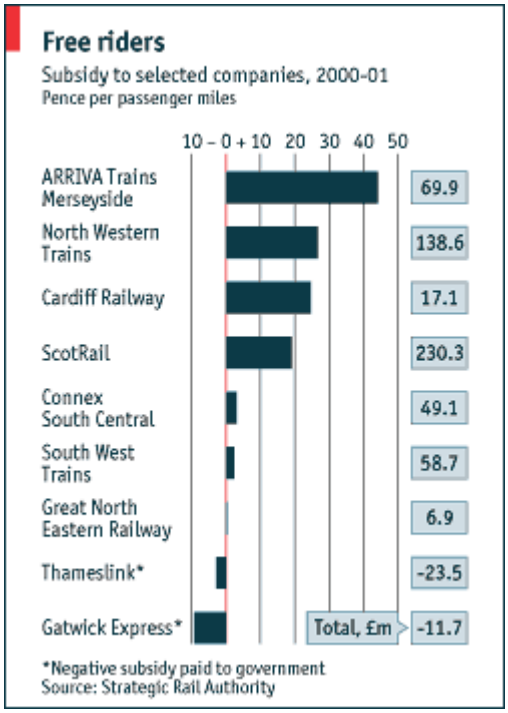
	Britain	France	Germany	Japan
Land mass, '000 sq km	244.9	551.5	356.9	378.0
Track, '000 km	34.1	31.8	36.5	27.5
Annual passenger km, bn	39	73	74	384

Sources: European Commission; railway companies

Might as well get them a limo

Two-thirds of all government subsidy—£855m in 2000-01—is spent on under-used regional networks which earn less than a fifth of the system's revenue. So large are the losses on the scenic 82-mile Inverness to the Kyle of Lochalsh line that according to local lore, it would probably be cheaper to provide each of its passengers with a chauffeur-driven limousine. ScotRail, whose services cover the country's most thinly-populated areas, consumes the largest lump of subsidy of any company—£230m, or 19p per passenger mile, roughly ten times the amount of subsidy that a London commuter receives (see chart).

The main economic justification for rail subsidies is to ease congestion or pollution, yet the bulk of the rail subsidy goes to areas such as the Highlands where these are not much of a problem. In London, meanwhile, where road congestion and air pollution provide a decent argument for using government cash to subsidise rail journeys, there are now serious capacity constraints. More than a million people use the rail services in London every day. Passenger journeys in London and the south-east have grown by nearly a third since 1995. More than 70% of all rail journeys now begin or end in the capital and they account for more than half of all passenger revenues. Yet train operating companies servicing London and the south-east receive only 18% of subsidies.



Although these are the central strategic questions for the railway, they are not raised in the Strategic Rail Authority's plan. Its new chairman, Richard Bowker, has been told by ministers to preserve the current network at its current size.

Transport economists question the way decisions in this area are made. “Railway investment,” says Stephen Glaister of Imperial College, “is not properly appraised, in terms of either efficiency or equity.” But economics are not what determines the size of the railway. Politics dictate that all those delightful lines that run over hill and through dale should survive, because the government fears that by cutting such services it would also cut its vote in those areas. Forty years ago, Dr Beeching, then chairman of the railways, axed some of them, and the infamy of his name lives on in the shires to this day.

Lord Birt, who is advising the prime minister on transport, is understood to have concluded that rail investment needs to be concentrated in London and the south-east. But a serious reallocation of resources on the railways would mean cutting lots of branch lines, and that is a task for a politician with the hide of Dr Beeching, not of Tony Blair.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Cities

The doughnut effect

Jan 17th 2002 | BIRMINGHAM
From The Economist print edition

The suburbs are paying for Britain's success in reviving its inner cities

THE huge, red-fronted Mailbox building just off Birmingham's city centre was built in the 1970s as the country's largest mail-sorting office. It was also probably one of the ugliest buildings anywhere in the world. Today, however, after a facelift, it is one of the most desirable addresses in the Midlands. Harvey Nichols and Armani have just moved in to this multi-use development, and all the 144 apartments on the upper floors have been snapped up for prices of up to £350,000 ($500,000).

Britain's second city used to be a byword for urban blight. After the planners got to work on Birmingham in the 1960s, its centre was a grim confusion of concrete and flyovers. By the time the recession of the early 1980s had done its bit, there was not much life left in it at all.

But in the late 1980s, an enterprising council started to reverse the trend with a mixture of public and private money. Since then, the city centre has been transformed. Money is still pouring in, with the glossy new Bull Ring shopping centre due to open next year. But in Birmingham, as in many similar cities, there is a cost to the inner-city revival.

Whilst the centre has prospered, those parts of the city that planners call the “inner suburbs” have crumbled, leaving many stranded in the no-man's land between the booming centre and the plush outer suburbs. Planners call this the “doughnut effect”, which confusingly describes the opposite phenomenon to the “donut effect” that American planners talk of. The American donut, a sugary ring with an empty centre, is a fine metaphor for the rich suburbs around a collapsed inner city. The British doughnut, a lump of indifferent carbohydrate with jam in the middle, describes rich inner-city development surrounded by acres of gloom.

The British doughnut, a lump of indifferent carbohydrate with jam in the middle, describes rich inner-city development surrounded by acres of gloom

The ideas behind inner-city regeneration are partly to blame. They were based on the principles of the Urban Village movement that emerged from America in the early 1990s, whereby the segregation of urban areas into retail, industrial and living areas was abandoned, and cities reverted to mixed-use development.

The Jewellery Quarter in the centre of Birmingham, for instance, used to be home to 70,000 jobs. Now only 6,000 remain, but developers have gentrified the old canal-side warehouses and built plazas decorated with coffee shops. This combination has attracted both homebuyers and new businesses to the area. Corporate headquarters have moved in and a new law college has opened. Other city-centre “quarters” such as Brindleyplace have also prospered after getting the gentrification treatment.

Over 3,000 new housing units have been built in the centre of Birmingham. This has even led to the novel phenomenon of “reverse commuting”, whereby the city centre's new residents travel to jobs in new, high-tech companies on greenfield sites on the edge of the city.

But, as Robert Shaw, the policy officer of the Town and Country Planning Association (TCPA), argues, “the suburbs have been left behind in the rush to improve the inner-city areas.” In many inner suburbs, the infrastructure is failing and the services are moving out. Many of these areas in Birmingham are now

identified as “food deserts”: food retailers have moved out, either to up-market shops in the city centre or to out-of-town supermarkets. Differences in house prices tell the story. A Birmingham estate agent is selling three-bedroom terraced houses in the inner suburb of Selly Oak for £90,000 and two-bedroom apartments in Brindleyplace for upwards of £200,000.

Birmingham is not the only city facing up to the plight of its suburbs. The TCPA has just finished co-writing a report on the problem for the Greater London Assembly. It looks at previously prosperous areas such as Surbiton, Barnet and Colliers Wood. In Birmingham, the city council is already trying to apply the lessons of its city-centre regeneration to some of the suburbs. Northfield is set to get £17m of public and private money. Selly Oak and Erdington are also due for such treatment.

But whether the people who actually live in these areas will relish the city-centre treatment remains to be seen. City-centre regeneration relied on “higher density” plans, getting more people and businesses into the same area. For many residents, this offends the whole spirit of the suburbs, which were, after all, designed as a refuge from the bustle of city life; but these days they're looking a little too quiet.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Skye Bridge

Revenge of the Picts

Jan 17th 2002 | ISLE OF SKYE
From The Economist print edition

One man and his obsession could cause a lot of trouble

EVERY politician knows them—the obsessives who write densely argued letters on obscure subjects and won't take no for an answer. The nightmare is the one who seems to have a point—like the one on the island of Skye off the west coast of Scotland.

In 1984, Brian Robertson, a perfectly intelligent man, formally changed his name to Robbie the Pict. Mr Pict was campaigning for Scottish independence. The Picts were the original Scottish natives, who were wiped out in the 8th century by the Scots, who were originally Irish.

Never mind. An admirer gave Mr Pict an acre of Skye, which he promptly declared to be the Pictish Free State. He lives there now and is its diplomatic representative. The government does not recognise Pictland.

Never mind that either. The Pictish Free State is now also the Scottish People's Mission against unjust laws. One such bad law, according to Mr Pict, is that allowing the collection of tolls on the Skye Bridge. They are levied to pay back the privately-financed £24m ($34.8m) construction cost. At £5.70 one way for a car, the toll is steep. Some islanders refused to pay and got fined. Since then, the toll has been cut for locals.

The Pictish Free State wants tolls on Skye Bridge abolished

Delving into the paperwork, Mr Pict discovered that the law allowing the collection of tolls was not properly published and the order allowing the government to pass on the right to collect them was not signed or dated. This means, says Robert Black, professor of Scots law at Edinburgh University, that the tolls are illegal.

This sometimes happens with parking restrictions, and everyone who has been fined gets their money back. But Mr Pict's various appeals against convictions for non-payment of tolls have all been rejected. Curiously, the judges have ruled against him on grounds other than the defective paperwork, on which they have avoided pronouncing.

This may be because ruling the paperwork out of order would cause such a headache. It might mean several million pounds in compensation for the millions of people who have paid up and the 124 people who have been fined for not paying. Trying to back-date a new law to when the bridge opened might break human rights legislation. It would even be hard to get a law through the Scottish Parliament to make future tolls legal, because the Liberal Democrats, Labour's coalition partners in Scotland, oppose the tolls. Not passing a new law would mean paying around £100m compensation to the Bank of America, the ultimate owner of the collection rights.

Meanwhile, there is now a stand-off between Mr Pict and the courts, which last prosecuted for toll non-payment in 1997. Prosecutors appear to have abandoned the 372 outstanding cases mainly, it seems, to avoid giving Mr Pict the chance to argue that the tolls are illegal. But Mr Pict, with the confidence of the obsessive, says “we will win.” He might just, too.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Culture wars

Ken who?

Jan 17th 2002
From The Economist print edition

The French have discovered the new Dickens. He's called Ken Loach

PARIS likes to think of itself as the cultural and intellectual capital of the world, so it is rare that the French notice anything of that sort coming out of Britain. Oscar Wilde, Anthony Burgess and Henry Moore provoked a certain *frisson* of excitement across the Channel in their day, but that was all a long time ago.

Now, however, Paris, and indeed the rest of Europe, has discovered what *Le Monde*, France's poshest newspaper, describes as the heir to Dickens. He is Ken Loach, an elderly British film-maker.

This latest accolade comes after Mr Loach's most recent film, "The Navigators", about the privatisation of Britain's railways in the mid-1990s, was shown in Europe. According to *Le Monde*, this film brims with Dickensian indignation and compassion. In "*quelques scènes incisives*", the great director brilliantly exposes "*la logique...infernale*" of privatisation.

Mr Loach must be used to this sort of gush by now, as he has now become the darling of the continent's film critics. Europe's cultural elite has anointed him the supreme chronicler of contemporary Britain. He has regularly picked up awards at the Cannes film festival, and last year he acted as patron of the 40th Cannes "Critics' Week", succeeding Bernardo Bertolucci. He is also big in the Netherlands and Germany, where, argues Thessa Mooij, film officer at the Goethe Institut in London, he "is the one UK film-maker that people will be looking at for new films".

All of which is rather baffling to the British. Despite their culture-free environment, many of them have heard of Messrs Wilde, Burgess and Moore, but Mr Loach's following is select.

In the 1960s Mr Loach made several good movies—"Cathy Come Home", a film about homelessness, for instance, and "Kes", about childhood and poverty—but his unrelenting hostility to capitalism, Thatcherism and any ism not prefixed by social had made his more recent work predictable. His films tend to be of the type that is politely described as "didactic", and his politics as "minority". At the last election he backed the Socialist Alliance party, which polled 57,000 votes out a total of 26m cast.

In Britain, Mr Loach's work went out of fashion in the 1980s. Now he is enjoying a revival thanks to the enthusiasm of the European *cinèastes*.

So how has Mr Loach won this new-found popularity? Ms Mooij argues that Europeans are more familiar than are the British with films that tackle ideas. But there may be a more atavistic reason. Lionising Mr Loach is a way of indulging in an ancient French pastime. "The Navigators" commends itself to *Le Monde* as a commentary on "*l'interminable agonie de ce qui fut le système circulatoire du capitalisme anglais*." As long as Mr Loach sticks to that sort of subject, his French reputation is assured.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Zimbabwean refugees

Asylum granted

Jan 17th 2002
From The Economist print edition

At last the Home Office has recognised how bad things are in Zimbabwe

Reuters

What's waiting at home

BARBED wire, scraped vigorously against the soles of dissidents' bare feet, is an effective campaign tool. Militiamen backing Robert Mugabe's bid for re-election as president of Zimbabwe use it often, and with impunity. It discourages Mr Mugabe's critics from speaking out, and makes it harder for them to walk to the polls. Members of the Zimbabwean opposition clearly have the “well-founded fear of persecution” that should allow them to qualify for asylum in Britain. But until this week, the British government routinely repatriated Zimbabwean asylum-seekers.

Last year, fewer than a tenth of Zimbabweans who applied for asylum were granted it. Many of those who failed were bundled, often forcibly, on to planes back home. Some were met at Harare airport by officers of Zimbabwe's Central Intelligence Organisation, and dragged off for interrogation. Others have simply disappeared.

While Britain's Foreign Office regularly denounces Mr Mugabe's brutality, the Home Office seems to have assumed that most Zimbabwean fugitives were lying when they said they feared for their lives. It was only after a barrage of protest from the press and the United Nations that the home secretary, David Blunkett, noticed the contradiction. On January 15th, he promised not to deport any more Zimbabweans until after the presidential election in March, the campaign for which has already involved several murders and one beheading. “We will pause,” said Mr Blunkett, “and see if the situation stabilises.”

The number of asylum applications by Zimbabweans doubled from the second to third quarters of last year, to 485. Groups that lobby for better treatment of asylum-seekers suspect the authorities of having reacted to this increase by treating Zimbabweans more harshly, in the hope of deterring future arrivals. Tim Baster, the head of an organisation called Bail for Immigration Detainees, claims that this is the government's usual response to sudden surges of applicants from particular countries. Home Office officials insist that they treat each case on its merits.

Whether the doors are open or not, Britain is in no danger of being flooded by frightened Zimbabweans. There are only about 25,000 people with British passports in Zimbabwe. Of the country's 13m other residents, only a few planeloads could afford the air fare to London. If Zimbabwe descends into chaos, most refugees will walk to South Africa instead.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Health

The Californian way

Jan 17th 2002
From The Economist print edition

Timely lessons from America for the National Health Service

TO SCARE voters into loving the National Health Service, British politicians sometimes tell them that the alternative is an American-style system of private insurance, with its barbaric residue of uninsured people. What's more, so the argument goes, the American system is grossly inefficient, compared with the NHS, whose parsimony is generally extolled as its chief virtue. But a new study, arguing that some Americans get better care than do Britons at a comparable cost, calls that shibboleth into question. Alan Milburn, the health secretary—who this week announced (or re-announced) his latest managerial wheeze—ought to take note.

The study*, published in the British Medical Journal (BMJ), compares the costs and performance of the NHS with those of Kaiser Permanente, a non-profit health maintenance organisation (HMO), which has 6.1m members in California. HMOs, of course, have provoked as much dissatisfaction among some patients as has the NHS (see article). Compared with NHS patients, however, Californian Kaiser customers have little to complain about. For example, they are served by more doctors (see chart) and endure much shorter waits to get into hospital: 90% of Kaiser in-patients are admitted in less than 13 weeks, compared with 41% in the NHS.

So far, so predictable. More surprising is the study's comparison of the costs of the two systems. To make the comparison fair, the authors make adjustments for the different make-up of the two populations, the different services the two systems offer, and the different costs of doctors and drugs in the two countries. After all the adjustments, the NHS works out cheaper, but only just. On this basis, argues Deepak Lal, a development economist at the University of California, in a separate pamphlet, the government ought to buy private health insurance for everyone**. Citing J.S. Mill, Mr Lal points out that whilst there are good social and economic reasons why the state should fund public services, the case for state provision is weak.

Bigger bang
Per 100,000 people

	NHS	Kaiser California
Inputs: specialists		
Paediatricians	4.9*	12.3
Obstetricians & gynaecologists	4.1*	8.3
Outputs: procedures		
Angioplasty	38†	116
Kidney transplants	2.7	4.8

*Includes registrars †England
Source: *British Medical Journal*

But the comparison of costs does not really do justice to the poor old NHS. If the authors of the BMJ article had not taken the higher costs of Californian drugs and doctors into account—which are, after all, partly a function of having a more fragmented system—the NHS would have come out looking much cheaper. Nevertheless, there are important lessons for the NHS about the efficient use of resources. One of these is that by offering more and better services to patients outside of hospital, the amount of time they spend in it can be dramatically reduced: Kaiser patients spend about a third as much time in hospital as do NHS ones, which enables more money to be spent on doctors, drugs and so on.

To be fair, the government has already worked this out for itself—and though it prefers not to admit it, it has also come to appreciate another message of the Californian comparison: the virtue of competition. Mr Milburn this week refined his plan to give good NHS hospitals more freedom and shake up bad ones, sketching out the sort of independence the former might enjoy, and warning that other hospitals, charities and even (the horror!) private companies might, eventually, take over the management of the latter.

In theory, the NHS will one day comprise a variety of different providers, offering more choice for patients (who will, the government also pledged this week, have more data to help them choose). Perhaps because these ideas—sensible so far as they go—bear a more than passing resemblance to the

Tories' internal market—which the government claims to have dismantled—they jerked the knees of Old Labour backbenchers and trade unionists, who were quick to draw scurrilous analogies with Railtrack.

The health secretary also claims to have learned another of the lessons from California that Richard Feachem, the study's principal author, highlights. As well as injecting competition among providers, the Californian model takes out much of the competition between politicians that habitually disrupts the NHS. Mr Milburn now says that the health service cannot be run properly from Whitehall. Perhaps this epiphany is genuine, though doctors and managers are sceptical: after all, politicians, like turkeys, tend not to vote for their own extinction.

---

* “Getting more for their dollar: a comparison of the NHS with California's Kaiser Permanente”; R. Feachem *et al*, BMJ 19.1.02

**“A Premium on Health: A National Health Insurance Scheme”, Politeia, 2001

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Motor-racing

In a spin

Jan 17th 2002
From The Economist print edition

Motor-racing is one of the few successful bits of Britain's diminished car industry, which is why claims it is now under threat are getting attention

Get article background

PA

Ecclestone keeps his eye on things

BRITAIN is the centre of the world's motor-racing industry. Along a strip of the country from Northampton in the Midlands to Southampton on the south coast, there is a cluster of firms which includes seven of the world's 12 Formula One racing teams as well as companies making the bodies and engines for America's rival IndyCar series. The industry contributes a net £2.7 billion a year to the economy, and employs some 25,000.

At the heart of this cluster lies the Silverstone Grand Prix racing circuit, which hosts the British Grand Prix, one of 17 held around the world each year. But Silverstone only narrowly escaped being dropped from this year's Grand Prix calendar, because its facilities are so poor compared with shiny new circuits in countries such as Malaysia. Some industry figures, such as Sir Jackie Stewart, president of the British Racing Drivers' Club (BRDC), which owns the track, say that the race is crucial to the industry, and that without a British Grand Prix, motor-racing companies would decamp to France or Germany. It's plausible. The industry moved from Italy after World War II, and could easily move away again.

Silverstone's Grand Prix attracts around 250,000 spectators. Getting to the race involves sitting patiently in traffic jams on the tiny roads that lead from the M1 or the M40 to the track. Two years ago, when the race was inexplicably moved to April from its normal July date, the lanes and car parks were a bog. Corporate hospitality guests were whisked by helicopter to the paddocks. The rest were left to paddle through the mud. A grandstand ticket for this summer's race will cost £299.

Silverstone is thus a curious combination of the scruffy and the affluent. So are its finances. That is why the BRDC wants a government subsidy of about £40m towards the £80m said to be needed to bring it up to international standards, complete with a visitor centre to attract tourists all the year round.

Why is a multi-billion-dollar international industry begging for taxpayers' money? Because of the odd finances of Formula One racing. The whole sport is run by one man, Bernie Ecclestone, with the assistance of his long-standing associate Max Mosley, who is chairman of the sport's governing body, the Fédération Internationale de L'Automobile (FIA). Silverstone has to pay companies, founded by Mr Ecclestone, fees of up to £8m to stage the race, and surrenders media rights to them. Revenues from track-side advertising and corporate hospitality go to mysterious Swiss companies whose ownership is unknown. So Grand Prix circuits such as Silverstone have little but the ticket sales revenue to invest in the track.

This explains why few of the world's Grand Prix circuits do not receive government subsidy. The Sepang track in Malaysia, for instance, the most up-to-date in the world, was built with government assistance. The state of North Rhein-Westphalia paid for the development of the Nurburgring in Germany in the 1980s. The state of Victoria bankrolls the Australian Grand Prix in Melbourne.

Sir Jackie has dressed up his request for aid with a plan for a motor-sports centre of excellence, with exhibits and training facilities to encourage youngsters to develop engineering and motor-racing skills, involving a couple of local universities. Ministers are sympathetic. Richard Caborne, the sports minister,

is trying to rope in other departments to squeeze some cash out of the Treasury.

But dissent within the industry weakens Sir Jackie's case. Mr Ecclestone, though he is chipping in, along with a sports promotion company called Octagon, for the basic upgrade of the circuit, has come out against the request for government aid for the fancier scheme. It is not clear why. Conspiracy theorists mutter about an implausible plot to acquire Silverstone on the cheap. Perhaps Mr Ecclestone's objection is based on a principled and passionate belief that British taxpayers should not subsidise private business.

Luckily for Sir Jackie, the government is already wedded to the need to protect jobs in the motor-racing business. That, politicians explained in 1997, was why Formula One got an exemption from an EU directive on tobacco advertising. The government hotly denied that this favour had anything to do with the £1m donation Mr Ecclestone made to the Labour Party. Which makes it hard for it to ignore the pleas of the motor-racing industry now.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Bagehot

The new centre

Jan 17th 2002
From The Economist print edition

Tony Blair has strengthened Downing Street, and maybe weakened his government

> MEMBER OF PARLIAMENT: “I do apologise, I am having huge problems with the whole concept of the centre.”
>
> DEPUTY PRIME MINISTER: “Join the club.”

IT IS accepted even by his fans that the most sensitive bits of Tony Blair's anatomy are those delicate antennae that twitch at the faintest change in the political atmosphere and order his brain to take evasive action. So it was last week, when the prime minister returned from one grandstanding foreign excursion too many to find Britain in a grump about the public services. In the twinkling of an eye, Mr Blair was promising to roll up his sleeves and return at once to his True Vocation, namely the reform of hospitals, schools and railways. This week, by some feat of administrative prestidigitation, the government started instantly to make good on his promises. On Monday the transport secretary unveiled a new vision for the railways. On Tuesday the health secretary announced a new reform of the hospitals. On Wednesday newspapers reported the education secretary's new plan to crack down on bullies in schools. In truth, some of these unveilings and announcements were less new than they were designed to appear. Nonetheless, this government is second to none when it comes to thinking up, joining up and driving through the news agenda it wants the media to follow.

How good, though, is it at thinking up, joining up and driving through its policies? This, as the disarming parliamentary exchange printed at the top of this column suggests, is a more complicated business. Since 1997, Mr Blair has been trying to shake up not only the public services but also the structure of government itself. He has tried to change the culture of the civil service, lecturing it on the need to become better at “delivery”. He has doubled the number of political advisers employed by the government, and trebled the number of those who work in Downing Street. He has brought in scores of outside advisers, including many businessmen. And in parallel with wider constitutional reforms he has made more changes than any prime minister since Lloyd George to the working of Downing Street and the Cabinet Office. The small band of civil servants, MPs and academics who think about such matters now talk of the government having a “new centre”. It was a Commons select committee, struggling to work out how the new centre worked, that drew the disarming confession of puzzlement from the deputy prime minister, John Prescott. His puzzlement was ominous, given that in last June's post-election cabinet reshuffle, he was supposed to have moved to the centre of the centre.

You do not have to be Mr Prescott to be confused by the plethora of new faces and units in Downing Street. Consider the case of Lord Birt, a former director-general of the BBC with no known expertise in transport, who now styles himself the prime minister's “strategy adviser” and has just written a report reiterating gravely what was already known, which is that Britain's railways are far inferior to those of its continental neighbours. He did so as part of his part-time attachment to a new body called the Forward Strategy Unit, which is supposed, with the help of other part-time luminaries from outside the civil service, to do “blue-skies” thinking about the government's strategic direction. The Forward Strategy Unit is part of, but is not to be confused with, the new Performance and Innovation Unit, which claims in turn to provide the prime minister with “creative” and “unconventional” strategic solutions, especially to “long-term strategic issues that cut across departmental boundaries”. Both units are separate from the apparently shorter-term Policy Unit, which has merged since the election with the prime minister's private office, and from a new beast known as the Delivery Unit, which is supposed to make sure that individual departments implement whatever policies manage eventually to emerge from the centre's new strategy-mulling behemoth.

Since no new idea goes unpunished in politics, Mr Blair's political opponents have been quick to condemn

all these changes. Some of the criticism is *ad hominem*. Wasn't Lord Birt, gasp, “controversial” at the BBC? Some is constitutional. Hasn't the creation of what is in effect a prime minister's department brutalised the time-honoured order of Whitehall? Most of it is exaggerated. It is hard to see much that is constitutionally sinister in, say, the Performance and Innovation Unit's Waste Project, which aims “to explore a variety of policy options for meeting the EU Landfill Directive and moving the UK onto a more sustainable waste-management footing.” Most of Mr Blair's changes are designed to fix acknowledged, longstanding weaknesses of the civil service, such as the homogeneity of the advice professional civil servants offer ministers and their inability to tackle the so-called “wicked issues” that fall between departments. If Mr Blair thinks that a reforming government needs a stronger centre, with more people reporting directly to him and less power for individual departments, he is entitled to reorganise Downing Street however he pleases.

And yet he may come to regret what he has done. For in creating his new centre, Mr Blair has also had to undermine the old one, which consisted of the cabinet and its associated committees. And for all its failings, as George Jones, professor of government at the London School of Economics argues, the cabinet system was a brilliant way of persuading the top civil servants of individual departments to co-operate with one another. By marginalising fellow ministers and putting himself and his advisers in their place, Mr Blair is in danger of undermining the very notion of “joined-up” administration on which he says the efficient delivery of public services depends. Perhaps he has no choice: spreading his own tentacles is one way for the prime minister to block those of Gordon Brown, who runs a Treasury that has reached deep into almost every nook of Whitehall. But the new system is not yet tested, and may yet fail.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Corporate health plans

Treatment of choice

Jan 17th 2002
From The Economist print edition

In an ailing economy, American employers are looking for new remedies to cope with soaring medical costs

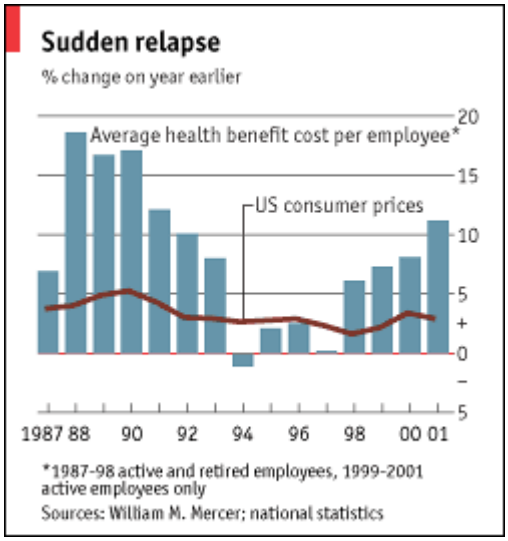
IN AMERICA, paying for health care is like having a nasty recurring fever. Just when it seems that harsh medicine has brought costs under control, the temperature rises and spending shoots up once again. Among those hardest hit are employers, who have long offered health insurance as a way of attracting and retaining workers, and now pay the lion's share of $440 billion in private health insurance, covering 160m Americans aged under 65. This year American businesses can expect to spend roughly 13% more on health benefits than in 2001, the largest annual increase for more than a decade, according to William M. Mercer, a benefits consultancy.

As the economy sags and company executives nervously eye their balance sheets, health benefits are an obvious item to cut. But Americans do not take kindly to having their medicine doled out in closely measured doses. Managed care—a health financing and delivery system introduced in the 1980s to replace fee-for-service insurance—has tried to do just that, by clamping down both on payments to health-care providers and on patients' access to costly specialists and tests.

Although it succeeded in lowering employers' health-care costs for a time, managed care is now losing its grip on medical inflation (see chart). Doctors and hospitals are cutting tougher deals with managed-care companies (such as health-maintenance organisations) and demanding higher rates for their services; and prescription drugs are now a common feature of medical care. The “HMO backlash” by consumers means that employers have also been relaxing the constraints of managed care (eg, by allowing patients to consult doctors other than those in their health plan) in an attempt to keep employees on board. What employers need is a system that combines cost containment with freedom of choice for consumers—a miracle cure, in other words.

A growing number are putting their faith in “consumer-driven” health plans. The idea is to pass more of the responsibility for choosing and paying for plans to workers, in the hope that a personal financial stake will encourage them to use health-care

services more prudently. A recent survey of more than 1,900 companies by the Kaiser Family Foundation and the Health Research and Educational Trust, two Washington think-tanks, found that almost half plan to increase the amount that employees pay for health insurance in the coming year. Already, many American employees have to chip in with “co-payments” to buy branded drugs when their employer will reimburse only the cheapest generic version.



For employers fed up with the cost and complexity of their health plans, the easiest course might seem to be to give employees a fistful of dollars and let them buy their own coverage on the open market. But as Paul Ginsburg, head of the Centre for Studying Health System Change in Washington, DC, points out, there are good reasons why firms have shied away from such a “defined-contribution” approach.

For one thing, money that companies put towards health insurance is tax-free; under the current tax system, folding this transfer into higher salaries would leave both employer and employee worse off. Moreover, by offering the same plans to all their workers at the same rate, employers pool their risks and level the playing-field between healthy workers and their sickly colleagues; with a cash transfer, employers might have to make this cross-subsidy explicit, paying some employees more than others, which could lead to friction in the ranks. Even with a hefty pay rise, employees would still find it hard to get as good a deal on insurance as big companies buying in bulk. According to the Employee Benefit Research Institute, workers would pay almost a third more for health insurance as individuals than as part of a firm of 1,000 workers or more, tempting some to drop coverage altogether and so swell the ranks of America's 46m uninsured.

That said, a few large companies—among them Budget, a car-hire firm, and Textron, an industrial conglomerate—have started experimenting with a less radical form of defined-contribution health care. Medtronic, a medical-device maker, began offering its employees this sort of plan, along with more conventional managed-care coverage, last year. In the defined-contribution scheme, the company puts aside $1,000 for a single employee, or $2,000 for a worker with dependants, into a “personal care account”. Since these accounts exist as entries on the employer's balance sheet, rather than as cash in the bank, they are still tax-free. The employee then uses the account to pay for routine medical expenses, such as trips to the doctor. Expenses between $1,000 and, say, $1,500 come out of the employee's own pocket. Anything more than that—for instance, triple-bypass surgery—is paid for by Medtronic's catastrophic health insurance.

According to David Ness, head of health benefits at the company, roughly 14% of Medtronic's employees have enrolled in this scheme, as many as in any other health plan offered. At the moment, the various plans cost the firm roughly the same, but Mr Ness believes that defined contribution will lead to big cost savings in the long run. One advantage is that money left unspent in accounts can be rolled over to the following year, building a nest egg to cover the deductible.

In the past few years a handful of firms, such as Definity, Lumenos and HealthMarket, have sprung up to serve this market. Crucial to their operations is the Internet, which allows information to be delivered direct to employees. At Budget, which has signed with Definity, employees have their own web page for managing their health-care account. They also have access to Definity's database of 800,000 doctors, showing the price per visit and some rough measures of hospital performance. As Tony Miller, Definity's boss, points out, price transparency not only helps consumers manage their resources, but also promotes competition among doctors participating in the network.

One sign that consumer-driven health plans are slowly gaining ground is that big insurance firms, which are normally sluggish when it comes to innovation, are beginning to copy their smaller rivals. In September Aetna, one of America's largest insurers, launched its defined-contribution HealthFund; others, such as United-Healthcare, are considering following suit.

Many companies remain wary, however. As Arnold Milstein of William M. Mercer points out, big employers are unlikely to overhaul their health benefits in a tight labour market. But now that unemployment is on the rise, companies may have more freedom to experiment. A survey of 200 large companies by Watson Wyatt, another consultancy, suggests that a fifth may try defined contribution, at least as one of several health-plan options, in the coming year.

New laws could also boost its popularity. The Washington Business Group on Health, a coalition of employers, is lobbying Congress for legislative changes to give personal-care accounts the same “portability” as pensions. At the moment, workers who change jobs or retire leave their medical savings behind them. As Helen Darling, head of the coalition, points out, other congressional manoeuvres, such as the Patients' Bill of Rights, may also push companies towards a system that gives employees more responsibility. Defined contribution may not be a panacea for America's spiralling health costs, but the new approach could be a useful step towards transferring more of the burden away from hard-pressed employers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Corporate taxation in Japan

Another missed chance

Jan 17th 2002 | TOKYO
From The Economist print edition

A reform that would help companies restructure has been botched

AP

Good news for smokers and drinkers

TO SEE how baffling Japan's attempts at structural reform can be, consider the story of one simple reform: consolidated corporate taxation. The last, and maybe most important, in a series of measures designed to help companies restructure, consolidated taxation was due to be introduced in April. But the battle to bring it in has taken some unexpected twists. Unlike consolidated accounting and the easing of restrictions on corporate spin-offs, two earlier changes, consolidated taxation raises problems because it involves tampering with tax revenues.

The reform would allow firms to turn divisions into subsidiaries without incurring extra taxes. At present, all profitable subsidiaries pay full taxes. Under the new system, common in other rich countries, parent companies can treat subsidiaries as internal divisions for tax purposes, and are thus allowed to subtract the losses of one from the profits of another. This provides valuable benefits. For instance, firms that want to sack workers, but are hindered by Japan's rigid labour laws, can now bundle them into a division, spin it off into a separate company and then let it fail. Conversely, those that want to cut pay can skirt internal minimum-wage requirements by placing newly hired workers in subsidiaries with lower thresholds.

Consolidated taxation also enables companies to make more out of alliances and mergers. Take Mizuho Holdings, which has brought together three big banks to create Japan's largest banking group. By April, Mizuho will dismantle its three original banks and create, under a holding company, a new set of companies with specific functions such as retail banking. And thanks to the tax reforms, Daiei, a giant retailer that is currently in talks with its banks about a bail-out, is considering spinning off its healthier parts.

Consolidated taxation can be applied only to subsidiaries fully owned by their parents. That provides another benefit. Companies are starting to disentangle their web of cross-held, partially owned subsidiaries. Firms are either buying out other shareholders or getting rid of stakes entirely. For example, Keio Electric Railway has turned Keio Department Store from a partially into a wholly owned subsidiary by buying out Takashimaya, a rival store. Keio Electric Railway, which has also topped up its holdings in other subsidiaries, says that by gaining full control, it can consolidate them and so improve assets that could be sold on later.

But this flurry of activity was brought to an abrupt halt last November, when the Ministry of Finance suddenly announced that it would have to push back the introduction of consolidated taxation by a year, as two of its tax experts had fallen ill. The real reason for the delay, said cynics, was the ministry's concern over the ¥800 billion ($6.1 billion) annual shortfall in taxes that it thought the reform would create.

The Keidanren, a powerful business group, was furious. Its leaders lobbied leading politicians to reverse the ministry's proposal, arguing that many companies that had been planning to take advantage of the new system and restructure their businesses might not survive a year's delay. They estimated that the real shortfall would be 25% smaller than the ministry's “exaggerated” ¥800 billion figure, and came up with alternative tax proposals to fill the hole. Their work paid off. A week later, the ministry backed down.

Days later, the government added another twist. Its tax committee announced that firms using consolidated taxation would have to pay an extra 2% surcharge for two years to help make up for the lost taxes. This means that companies such as Toyota, with profitable subsidiaries, will incur new taxes if they switch to the new scheme; and unprofitable companies will have less incentive to make money.

The surcharge is short-sighted because, argues Alexander Kinmont of Nikko Salomon Smith Barney, the consolidated-tax reform will boost revenues in the long run as restructured companies become more profitable. Even Hiromitsu Ishi, head of the government's tax commission, confesses that “the surcharge goes against the basic principles behind consolidated taxation.”

So why apply it? The decision came on the heels of a last-minute tax reprieve, worth about ¥300 billion, for makers of cigarettes and low-malt beer. As so often, special corporate interests triumphed over those of business at large.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

European chemicals

Plus ça change

Jan 17th 2002
From The Economist print edition

After a decade of upheavals, the industry is back in trouble

A DEAL that has so far failed to happen could, even so, presage a fresh round of consolidation in the European chemicals industry, which has been through much rationalisation in recent years. Last month DSM, a Dutch group, offered to buy Rhodia, a French rival that was spun out of Rhône-Poulenc before its merger with Hoechst in 1999 to form Aventis. Rhodia's board rejected the deal without putting it to shareholders, despite DSM's reported offer of a 50% premium over the share price. No wonder some shareholders reacted angrily this week: the tide of misery that is engulfing bulk chemicals—basic petrochemicals such as ethylene and the plastics, shampoos and fibres made from them—is spreading to the overcrowded specialty segment. Hence the pressure for the sort of consolidation that was proposed by DSM.

Specialty chemicals account for about 35% of total world chemical output of $1.7 trillion, and consist of the materials that go into such things as glues and dyes. These chemicals command higher prices and profit margins than bulk chemicals, which account for half of all output. But, as more companies have trooped upmarket, so the traditional ills associated with basic chemicals have gone with them. Overcapacity, weak prices and falling demand now afflict a broad spectrum of the industry; only the “fine chemicals” that are used for making drugs, which account for 15% of global output, are immune to the downward slide of prices.

This is not new: the chemicals industry has seen real prices decline by at least 1% a year for 20 years. It responded with some asset-swapping between companies and rationalisation in the 1980s, as companies specialised in particular products rather than trying to make everything. This was followed in the early 1990s by a bout of corporate re-engineering to improve “focus” and bring down costs. Then came another round of mergers and demergers, during which old-style chemicals-to-drugs conglomerates, such as ICI and Hoechst, were broken up.

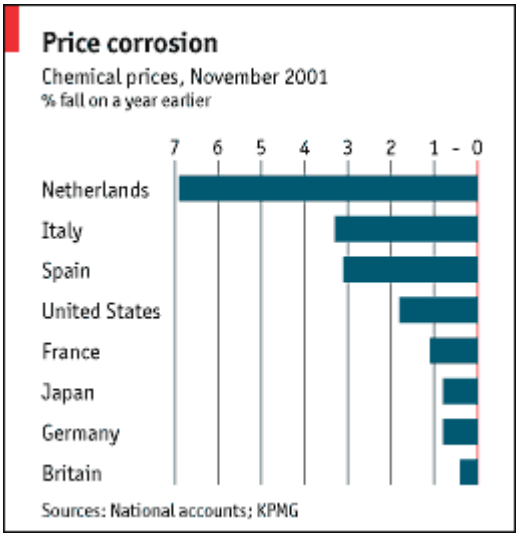
This has thrown up a long list of strange new company names. Ineos comprises spun-off parts of Britain's BP Chemicals; Clariant includes bits of Hoechst and Sandoz, a Swiss drug company that is now part of Novartis; Avecia houses part of the old ICI specialty chemicals business. Few other parts of European manufacturing have undergone such relentless upheaval, notes John Morris, a chemicals expert at KPMG in London.

Many of these new creatures share a reliance on private equity for finance. By and large, listed chemicals companies are seen as overly cyclical and prone to sharp downturns. Since the break-up of the old chemicals conglomerates, their main source of support has been private-equity investors looking to buy cheaply and sell on spruced-up assets within five years. This is itself a factor that has quickened the pace of mergers. Since 1996, more than a quarter of all acquisitions in the industry have involved private-equity investors; KPMG reckons that over $30 billion has been invested this way in European chemicals groups. Recently, there have been signs that some investors are stretched, because of the huge debts they have taken on to buy assets.

As the chart shows, things are turning sour again for the industry, after several relatively healthy years. Plant utilisation is declining as well as prices. In Europe, plants are currently running at barely 80% of capacity; capital-intensive chemicals facilities make money only when they are using more than 90% of capacity.

The industry is braced for growing losses. Unlike the previous chemicals recession, this one, in America as well as Europe, has

uncomfortable echoes of the crisis of the early 1980s, when lots of new capacity combined with falling demand and weak prices to trigger agonising convulsions. This time, the added presence of anxious private-equity investors looking for an exit is likely to send the consolidation carousel spinning faster than ever.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Intellectual property

More Rembrandts in the attic

Jan 17th 2002
From The Economist print edition

Britain's BT hopes to make money from dusting off its patents

A COMPANY with thousands of patents squirrelled away might pardonably fail to realise that one was worth a fortune. It is, in the memorable title of a book on the subject, rather like having “Rembrandts in the Attic”. BT, a British telecoms company with 14,000 patents, stumbled over a possible Rembrandt in 2000, in the shape of an American patent issued in 1989 for the hyperlink technology that allows Internet users to click on a page and leap to related information elsewhere on the web. On February 11th, BT will begin a court case against Prodigy Communications, an Internet service provider, for what it claims (to guffaws from many Internet gurus) is a breach of copyright.

No wonder, then, that BT signed a deal this week with ipValue, a start-up backed by the Boston Consulting Group, Goldman Sachs and General Atlantic Partners, an investment group, to review its patents and look for licensing opportunities in North America. It hopes thereby to earn around $100m a year in six years' time.

That is not a fanciful sum. IBM, which has developed patent licensing to a fine art, made $1.7 billion from its patent portfolio last year; Lucent took in $400m. With a team of 15 experts, ipValue is on the prowl for similar Rembrandt-rich companies. Kevin Rivette, one of the book's authors and chairman of Aurigin Systems, which makes software for tracking patents, says the best bets are companies that have been around for 25-50 years, and have a technology now used mainly by other companies. He cites Honeywell, which makes money from patents for technology used in self-focusing cameras. Honeywell no longer uses it, but lots of Japanese camera makers do.

BT's deal will help to feed its team of 3,000 or so scientists. Won't they want a cut of the Rembrandt money too? BT says they already get good rewards for filing valuable patents. But the main reward, Mr Rivette says, is seeing their inventions put to use. “Researchers don't do what they do for the money,” he claims. “They have a different DNA from you and me.” So did Rembrandt.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Kmart in trouble

Blue Light blues

Jan 17th 2002 | NEW YORK
From The Economist print edition

The perils of trying to out-Wal-Mart Wal-Mart

AP

Getting smaller by the day

THE latest special offer available at Kmart seems to be its own shares. These fell to a 36-year low this week, leaving the second-largest American discount chain, which sold goods worth $37 billion last year, balancing borrowings of $4.7 billion on a market capitalisation of a mere $784m. No wonder the rating agencies have rushed to downgrade Kmart's debt deep into junk territory. The retailer is talking to its banks about drawing down its remaining, dwindling, credit lines amid rumours of an imminent Chapter 11 bankruptcy filing.

Kmart has been struggling to restructure itself for the best part of a decade, in response to the success of competitors such as Target and Wal-Mart, the industry leader. However, it is the most recent reorganisation under Chuck Conaway, its chief executive, that has landed the company in its current mess. Mr Conaway, who arrived with great fanfare from CVS, a drug-store chain, 20 months ago, has worked hard to overhaul inventory management. But he has also allowed Kmart to get caught between two contradictory pricing strategies.

The company has traditionally specialised in promotional retailing: using newspaper supplements and advertising circulars to tout loss-leaders, such as its famous “Blue Light” specials, in order to draw in the crowds. Although this worked well for years, it also put a strain on merchandising and distribution systems, because orders for particular items came in sudden waves. (This explains why Kmart's shelves are fully stocked only 86% of the time, compared with almost all the time at Wal-Mart.) Promotions also forced costs up at Kmart's suppliers, as they could not reliably predict manufacturing runs. This meant that Kmart could never consistently better Wal-Mart's prices.

Mr Conaway has tried to wean the company away from this strategy. Rashly, however, Kmart cut its ad circulars too sharply in the second half of last year, losing customers in droves. At the same time, it cut prices on 38,000 items and promoted them with expensive television spots, again under the Blue Light tag. But this did not chime with younger shoppers who had no memory of the original campaign.

Worse, even though shoppers did not respond, Wal-Mart did. It used its greater efficiency and economies of scale to fight back on pricing. The outcome was a 1% drop in Kmart's same-store sales in December, and an 8% increase for Wal-Mart.

Under the circumstances, a Chapter 11 filing looks increasingly appealing. This would give Kmart some respite from its bankers and suppliers. Most importantly, it would make it easier for the company to wriggle out of leases on poorly performing stores and warehouses. Kmart admits to having some 250 “opportunity stores” (translation: lame ducks) among its 2,100-strong chain. Analysts think that the number of closures might have to be higher than that.

The result might be a healthier, if much smaller, Kmart with a shot at becoming profitable once more. But it will take all of Mr Conaway's skills—and a lot of understanding from his bankers—to stop the lights at Kmart, including the blue ones, being switched off for good.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Express couriers

Intrigue on the orient express

Jan 17th 2002 | HONG KONG
From The Economist print edition

Federal Express, UPS and DHL all want open skies in Asia. Why is Federal Express shouting so much louder about it?

AVIATION regulators from Hong Kong will be in Washington, DC, next week for a new round of talks to liberalise air travel between their territory and America. Sitting in on the meetings—silent, except during coffee breaks—will be representatives from two of the world's three big express couriers, Federal Express (FedEx) and United Parcel Service (UPS). The third, DHL, which unlike its rivals is not registered in Asia as an airline, will be absent but name-dropped frequently by its partner, Cathay Pacific, the main Hong Kong carrier. The coffee breaks will be noisy.

That is because this round of talks is more than just the usual stand-off between two governments coddling their airlines. It is also a defining moment in the global strategies of the three couriers. They compete fiercely everywhere, but in America and Europe they follow similar strategies. In Asia they attack the market, and therefore each other, in different ways. And Hong Kong is the key battleground.

In America and Europe—large land masses with a lot of population and production centres and mostly good surface transport—airlines mainly concentrate on carrying passengers, using small aircraft that cannot hold much freight. Hence, FedEx, UPS and DHL all need to rely on their own fleets.

East Asia is different. It is a vast archipelago with concentrated population centres. So the region's airlines fly large aircraft and lease their big bellies for freight. Air cargo accounts for 30-40% of most airlines' revenues in Asia, compared with only a few percentage points in America. Most of Asia's trade, especially in time-sensitive goods such as semiconductors, is exported to America and Europe; the trick in express deliveries is to link Asian factories with slick American and European transport networks. In Asia, the couriers have had a choice between using their own aircraft to do that and renting belly space from local carriers. FedEx and UPS have opted for the first, DHL for the second.

The hub's the rub

For the FedEx/UPS approach to be economically viable, aircraft must be flown as full as possible. This means relying on hubs, where cargo from short feeder flights is reloaded. The most logical place for a hub is Hong Kong, which is centrally located within Asia and is also at the mouth of China's Pearl River delta, the world's densest manufacturing region.

Hong Kong allows FedEx only five flights a week to a destination outside America, and UPS none

The problem for FedEx and UPS is that they want to put packages on to their own aircraft and then send them anywhere. They have this privilege—called “starburst rights”—in Singapore, which has therefore been growing as a second-tier hub in Asia. And they are hopeful of getting it in Shanghai. But Hong Kong has, so far, been stingy. It allows FedEx only five flights a week to a destination outside America, its country of origin, and allows UPS none (hence UPS's need to use other carriers in Hong Kong). This has driven FedEx and UPS to use airports in the Philippines, a short flight from Hong Kong, as hubs. FedEx uses an abandoned American naval base; UPS has cleared a former American air-force base of volcanic ash and will open its hub in April.

Still, the restricted access to Hong Kong is a nuisance. FedEx, in particular, has been waging a loud campaign to pressure Hong Kong into opening its skies. Its chairman, Frederick Smith, recently told a Hong Kong audience that this is a “no-brainer”, since complete liberalisation would turn the territory into an even bigger logistics and services centre, reduce costs for its exporters and create jobs. The added volume, argues Mr Smith, would even benefit Cathay Pacific. The cost of not liberalising, he adds, would be to give nearby Shenzhen and Guangzhou an opportunity to overtake Hong Kong within a decade.

One irony is that almost everybody in Hong Kong's government accepts these arguments. If there is stalling, it is because liberalising completely would mean forfeiting forever what limited bargaining power Hong Kong has over the Americans. Hong Kong would like concessions too—for Cathay, which may fly to, but not within, America—as well as commitments from FedEx and UPS that they will invest in the territory.

The most likely outcome of the negotiations is gradual, but not complete, liberalisation. Hong Kong, in other words, would grant America a few more third-country rights (to fly from Hong Kong to countries other than America). It would then be up to the American government to allocate those rights among its competing carriers. UPS, as the underdog, would be the obvious choice, and would thereby close its gap with FedEx.

This might explain why UPS has been quite “modest” in its lobbying, according to one person who will attend the Washington talks, whereas FedEx has been pushing ferociously for open skies. If the Americans negotiated according to FedEx's priorities, there would probably be no deal, and the status quo, which favours FedEx, would be preserved.

“I'm not playing this on a short-term tactical basis,” says David Cunningham, FedEx's boss in Asia, somewhat indignantly. He points out that FedEx has consistently argued for open skies all over the world. Still, UPS and DHL are slow to praise FedEx's altruism. As one of their executives puts it, obstinacy by the Hong Kong government is only one of his first worries; FedEx's lobbying of its own government in Washington is his biggest.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Face value

In a class of his own

Jan 17th 2002
From The Economist print edition

How Melvyn Weiss, a class-action lawyer, finds crimes that pay

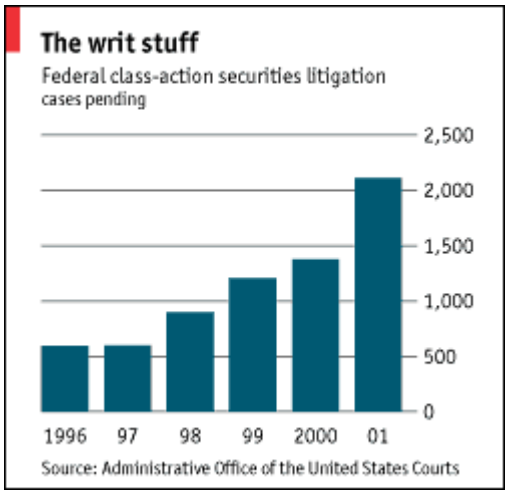
AP

ALONGSIDE the usual challenges facing a business anywhere, such as creating good products or hiring talented workers, American companies have become familiar with one that can be at least as difficult: Melvyn Weiss. If a firm's accounts are restated, or its customers are angered, or its shares bounce up and down, there is every chance that a notice will arrive from Milberg Weiss Bershad Hynes & Lerach, a law firm, announcing that the company, its directors and its managers are being sued. At least 325 of these benighted entities are listed on the Milberg Weiss website (along with an invitation to join a suit or to suggest another). If a company has blown up in a particularly spectacular way—Enron, say—any entity that can in any way be held responsible for its failures, most notably its auditors, will usually hear from Milberg Weiss too.

Quick, cocky, unpretentious—in short, a familiar sort of New York character—Mr Weiss this week notched up the latest in a long line of victories, participating in the settlement of a shareholder suit against Sunbeam's former boss, Al "Chainsaw" Dunlap, who agreed to cough up $15m after leaving the company in a mess. Even at 66, Mr Weiss foresees plenty of action to come, hoping for huge returns from suing Wall Street firms that underwrote initial public offerings during the Internet boom and from drug companies that sold untested products, as well as from Enron and its associates. "Greed is a growth business and always will be," he says.

As a teenager, Mr Weiss accompanied his father, an accountant, on weekly house calls to small bakeries and butchers in New York's outer boroughs. It was the son's task to reconcile accounts down to the penny, the father's to determine if the client was making any money. Later, Mr Weiss worked at a corporate law firm, where the closest he got to representing big business was suing the cleaner who wrecked the dress of an industrialist's wife. His real break came in 1965, when he teamed up with Larry Milberg, a lawyer who had built up a practice by responding fast to accidents and making sure he carried plenty of unsigned client contracts in his back pocket.

Besides pursuing some small cases, Mr Weiss helped a client to launch a business providing mobile television studios. The equipment was supplied by Ampex, then a big public company, for no money upfront. When the TV outfit went bust, Mr Weiss was intrigued to see a terse note in the newspaper saying that Ampex would take a large write-off, with no explanation. "I knew why—they booked profits prematurely," he says, adding that his old bakeries and butchers would never have dared do such a thing. "That led to my understanding of what a company did, accountants did and Wall Street did."



In 1973, Mr Weiss went after a bankrupt ice-cream company, charging accounting fraud. He won $1.8m from Touche Ross—the first big trial loss by an international accounting firm. Two years later, he created an entire branch of litigation by seizing upon the implications of a fashionable new branch of economics—modern portfolio theory—to argue the doctrine of "fraud on the market". His idea was that any false or misleading statement by a company (for example, a misplaced expression of optimism) defrauded all investors if the share price subsequently fell. A vast client base suddenly came into being.

What gave these insights new force was a change in the rules that permitted the bundling of small clients into a large class-action lawsuit. Rather than a client finding a lawyer to represent him, a lawyer could now seek out an injustice and then troll for clients who could give his firm access to the court—plus a big slice of any settlement. “A distinguishing characteristic of the Milberg Weiss approach is that the clients became tokens to be moved around a game board,” comments Walter Olson, a senior fellow at the Manhattan Institute. “The suit was the law firm's idea, and the law firm's property.”

The result was a legal practice modelled on an entrepreneurial corporation. Milberg Weiss developed product (legal approaches), found opportunities (vulnerable businesses) and marketed services (to attract clients). From over 1,000 cases, around $30 billion has been recovered from targets including Charles Keating's savings and loan empire, Drexel Burnham Lambert, Washington Public Power Supply Systems, Met Life, Prudential and various banks trading on Nasdaq. Between 1988 and 1998, Mr Weiss personally earned more than $100m, according to the *National Law Journal*.

Who wins?

Is society better off because of Mr Weiss? Many people have been compensated for being cheated. Corporate governance has probably been improved by a fear of lawsuits. Mr Weiss even sees himself as an ally of auditors, by providing them with an excuse to be tough on their clients. “I have always believed the auditing profession needed a strong whip over their head so it does not look like they were over-eager in pushing their clients to be honest,” he says.

Conversely, in 1999 Milberg Weiss paid $50m to settle an abuse-of-process case in which Mr Weiss admitted telling Daniel Fischel, an expert witness who helped defendants to use economics to prevail over Milberg Weiss, that “I will destroy you” (Mr Weiss says his comments were taken out of context). And an entire class of costly insurance covering executives and directors has emerged in response to Weiss-inspired lawsuits, as well as reams of meaningless legalese attached to products.

Shareholder suits, in particular, seem a dubious remedy, because they do no more than transfer money from a vehicle the shareholders already own back to themselves—minus large legal fees—resulting in a large net loss to the shareholders. Only a very talented lawyer could argue that America is better off for that.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Enron

The twister hits

Jan 17th 2002 | NEW YORK
From The Economist print edition

Nothing about Enron's demise was surprising; nor is what must be done

Get article background

WITH each fresh turn in the Enron tale, one conclusion gets plainer. America's biggest bankruptcy was not a result merely of commercial misfortune or personal crookedness. The collapse was possible only because of flaws in the way that American capitalism has worked over the past decade. These flaws were widely known, and much discussed. But as America's economy and stockmarket boomed, few had an interest in fixing them. Presumably that will now change.

America's love affair with equities played a part in Enron's failure. The pay of senior executives and board members hangs on the performance of a company's shares—their reward for good performance aligned their interests with those of shareholders, supposedly. In practice, the alignment of interests is imperfect.

Equity-related pay schemes tempt managers to seek to boost the share price in the short term, giving them the chance to cash out their stakes, to the detriment of the company and its shareholders in the long run. Enron's managers made wide use of “special purpose entities” (SPEs), vehicles that shifted losses and debts off the company's balance sheet. The company's directors should have asked tough questions about the practice, but they did not. After all, a lot of personal wealth was at stake, for Enron's creative accounting suggested to investors that the company was more profitable and less leveraged than it really was. That kept Enron's share price up. The interests of “insiders” were thus at odds with those of outside shareholders. If managers and directors were not allowed swiftly to sell the shares they were given, then interests would be better aligned. Last year, executives sold stacks of shares even as Enron got into trouble.

Employees at lower levels fared less well. Many lost chunks of their 401(k) retirement funds, which were invested in Enron shares: an absurd risk for supposedly prudential savings schemes. Congress may now legislate to cap the proportion of a 401(k) plan that may be invested in an employer's shares.

In theory, many safeguards should stop managers boosting their share price through the use of dodgy financial numbers. Enron's audit committee appeared better qualified than most. It boasted a professor of accounting and an economist-turned-financial regulator. But several committee members faced financial conflicts of interest, generated only in part by Enron's donations to charities to which they were connected. Full disclosure of the financial interests of non-executives might help. But Robert Monks, a long-time activist for better governance, doubts that audit committees will ever attain enough of the independence of mind needed to watch over boardroom colleagues.

The rating agencies have also been criticised for failing to raise the alarm. They can demand additional financial information to rate companies' debt, but they did not probe deeply enough into the SPEs used by Enron. Leo O'Neill, head of Standard & Poor's, one such agency, asks what can you do “if you don't know what you don't know?” One answer is to read the footnotes to Enron's accounts more carefully: these mentioned, but glossed over, the SPEs. In a more justified defence of the agencies, Mr O'Neill argues that they “were never part of the euphoria surrounding Enron.” Even before the crisis hit, Standard & Poor's rated Enron barely at investment grade.

Analysts at investment banks were even worse at asking tough questions—advising clients to buy shares

in Enron until the moment the firm went bust. The conflicts of interest common during the dotcom bubble appeared here too. Wall Street profited handsomely over the years from serving Enron and the trading markets it created. Investment banks did good business setting up SPEs for companies.

That Enron's collapse came so suddenly and as a surprise to all but a few insiders was due largely to the opacity of its accounts, and in particular of its use of these off-balance-sheet entities, which were notionally separate and independent. Last November, Enron announced that it would restate its annual financial statements from 1997 to 2000, resulting in a cut in cumulative profits of nearly $600m and an increase in debts of $630m. The reason, it said, was that it should have added in three off-balance-sheet entities.

Called to account

It seemed curious that Enron's auditors had not spotted this earlier: these are not trivial sums of money. In August last year an Enron employee, Sherron Watkins, wrote to her boss, Kenneth Lay, expressing her concern that “we will implode in a wave of accounting scandals.” If Ms Watkins, whose field was “corporate development”, could see the writing on the wall, surely Enron's auditors, Andersen, should have been able to read it? Ms Watkins also passed on her concerns to Andersen. The firm told lawyers hired by Mr Lay to look into Ms Watkins' claims that, although the accounting practices were “creative and aggressive”, they were not “inappropriate from a technical standpoint”.

Joseph Berardino, Andersen's chief executive, admitted to Congress last month that his firm made an “error of judgment” over one of the off-balance-sheet vehicles. But most of the restatement, he said, came from a bigger SPE, called Chewco (after Chewbacca: one Enron quirk was to name these outfits after “Star Wars” characters in the hope, perhaps, that the force might save them when gravity reasserted itself). Mr Berardino insisted that Enron had withheld information about Chewco that would have led Andersen to insist on its consolidation into the balance sheet.

Most damaging for Andersen was its admission last week that employees had disposed of a large but undetermined number of Enron-related documents. Later reports that they had done so after receiving clearance in a memo from an Andersen lawyer led Senator Joseph Lieberman, chairman of a Senate committee investigating Enron, to warn the folks at Andersen that they could be “on the other end of an indictment before this is over.” Andersen has since published the offending memo, an innocuous-looking referral to Andersen's existing policy on the retention of documents. But on January 15th, it said that a partner whom it has now sacked called an urgent meeting to organise the effort to dispose of documents after learning that Enron had received a request for information from the Securities and Exchange Commission (SEC).

Andersen, the smallest of the “big five” accounting firms, is now in deep trouble. Conceivably, Enron-related lawsuits could bankrupt it, by finding the firm liable for billions of dollars in losses. Its indemnity insurance, which it refuses to discuss, is unlikely to run to enough to cover it—and it might anyway be voided, if the firm were found guilty of criminal behaviour.

Andersen is the result of a split between the old Andersen Consulting and Arthur Andersen, a once-respected firm whose employees' solid sense of their corporate identity earned them the moniker of “androids”. This is not the first time it has found itself in trouble. Last year the SEC fined the firm $7m for approving the accounts of another Texas company, Waste Management, even though its accounting methods seemed designed to mislead investors. It also had to pay $110m to settle a lawsuit over auditing work it did for Sunbeam, a Florida consumer-products company that filed for bankruptcy.

Still, Andersen is not the only offender. This week, the SEC rebuked another of the “big five” firms, KPMG, for investing in a fund whose accounts it audited. In 2000, another giant, PricewaterhouseCoopers, was found guilty of no fewer than 8,000 violations of SEC rules covering employee shareholdings in audit clients. The infractions were minor. But they raised a question: if accountants cannot follow rules separating their financial interests from their clients, how can they be trusted to insulate their firms' corporate interests?

Conflicts of interest have become sharper as the accounting firms have transformed themselves into huge “professional-services firms”, offering clients everything from advice on information-technology systems, to legal help, tax planning and recruitment services. Andersen had revenues last year of more than $9 billion, with 85,000 employees in 84 countries. Enron was an important client. But of the $52m in fees Andersen earned from it, more than half, $27m, derived not from auditing its books, but from

providing other services. It must surely be time to implement the ban on doing non-audit work for audit clients that was sought by Arthur Levitt, who stepped down as chairman of the SEC in early 2001. As Mr Levitt recalls, Andersen fiercely opposed the ban, arguing that there was no evidence that it was needed. There is now.

Mr Berardino, Andersen's boss, pins much of the blame for Enron's demise on accounting standards that “have fostered a technical, legalistic mindset that is sometimes more concerned with the form rather than the substance of what is reported.” Yet that is partly down to the accounting firms, points out Lynn Turner, head of Colorado State University's Centre for Quality Financial Reporting and a former chief accountant at the SEC. In a recent speech, he cited numerous occasions on which the “big five” had frustrated attempts to improve accounting standards, including beefing up the Financial Accounting Standards Board (FASB). The FASB can at times show that it lacks force: in the 1990s it backed off from a rule to treat stock options as an expense, in the face of heavy lobbying.

America's accounting standards become ever less meaningful, says Baruch Lev of New York University's Stern School of Business. They fail to reflect a blurring of corporate boundaries caused by the proliferation of joint ventures, outsourcing, and so on. Nor do they fully report the emergence of new sorts of assets (such as intangible assets) and liabilities (off-balance-sheet financing, derivative contracts, etc). This creates an environment in which firms can too easily manipulate their figures: facilitating what Mr Levitt says is a move towards “indecipherable” earnings.

“The profession of auditing and accounting is in crisis,” says Paul Volcker, a former chairman of the Federal Reserve who is now head of the International Accounting Standards Committee Foundation. “It is hard to make meaningful change when there is a sense that things are going reasonably well. There is a silver lining in Enron. We do now have a sense of crisis.” Fingers crossed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa's weak currency

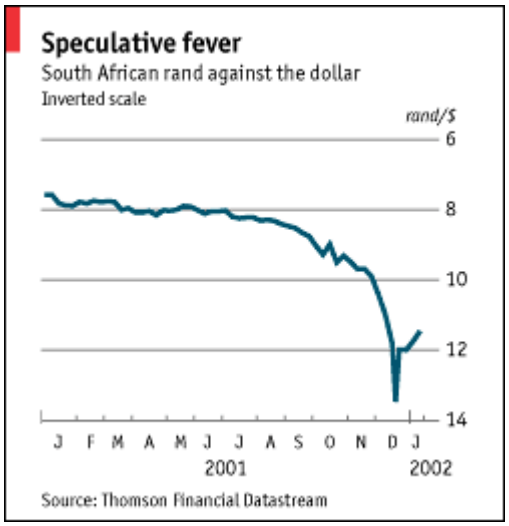
No random walk

Jan 17th 2002 | JOHANNESBURG
From The Economist print edition

Interest rates up, an inquiry launched

CARTOONISTS in South Africa have a long-running joke that shows a bruised and feeble coin, the rand, being beaten up by two muscled thugs, the dollar and the pound. In 2001 South Africa's currency was knocked down by two-fifths against the greenback, much of it in the closing weeks of the year. Last month people rushed to buy imported goods and fill their cars with petrol, expecting prices to rise as the rand sank. Some food costs are now expected to go up by more than a third. On January 15th the authorities took two steps: the Reserve Bank, worried by inflation, raised its key interest rate by one full point, to 10.5%, and the government announced a commission of inquiry into the rand's slide. Will either help?

At first glance, no. The rand immediately slipped below 11.7 to the dollar, though it remained well above December's all-time low of 13.5 (see chart). The unusual decision to raise interest rates during a global slowdown—and despite expectations of GDP growth this year of just 2-3%—suggests that the central bank thinks inflation may overshoot its target of 6% in 2003, as well as miss the target this year. Some expect a second rate rise soon.



Meanwhile, blame the “speculators”. The commission of inquiry led by John Myburgh, a lawyer, will report by May. He will ask whether any currency dealings last year were illegal, unethical or improper. The country's 40,000-strong business chamber last week suggested that speculators using dubious financial methods had pushed the rand down when few others were trading. Mr Myburgh will probably recommend measures to ensure that the few exchange controls that remain in place are respected—a near-impossible task when over a third of trading in the rand happens overseas, in London and New York.

Even if Mr Myburgh finds a devilish conspiracy against the rand, there are other reasons for the country's economic strains. South Africa is failing to attract much foreign investment and it has been painfully slow to privatise utilities. It has in Zimbabwe a highly unstable neighbour. Some of South Africa's biggest companies are now listed overseas, and they are not repatriating much hard currency. Ordinary citizens bet against the rand by opening British bank accounts. Until very recently the government seemed relaxed about the rand's decline, rightly pointing to the benefits for tourism and exports, both of which are doing well. But if the investment climate does not improve, expect the cartoonists to have fun for a good while yet.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Argentina's imploding banks

Should I stay or should I go?

Jan 17th 2002 | BUENOS AIRES
From The Economist print edition

Foreign banks are unsure whether to recapitalise their Argentine offshoots or abandon them

Get article background

EPA

Battered

FURIOUS at the continuing freeze of their savings, Argentines attacked bank branches—notably foreign-owned ones—this week. The freeze was imposed last month, after the country's deepening crisis had triggered a run on the banks. After violent protests had brought down two presidents, the present one, Eduardo Duhalde, decreed that, while all deposits denominated in dollars (as most are) would be refunded in dollars, loans of under $100,000 would be converted to pesos at the exchange rate of one-for-one that Argentina had maintained since 1991. Since the peso was devalued immediately afterwards, the banks are sure to suffer huge losses from this, on top of those caused by the government and many private borrowers defaulting.

No wonder that foreign banks are thinking of abandoning their Argentine subsidiaries, leaving the country to its fate. Faced with the extinction of the financial system, Mr Duhalde's economic team was this week bargaining desperately to persuade the banks to stay and even to inject fresh capital. The banks have already been promised compensation, to be financed by a tax on oil exports, but the $700m a year that this might raise seems unlikely to be anywhere near enough.

The extent of the banks' losses hangs on many factors, especially at what exchange rate the peso will settle. The government is trying to maintain an “official” exchange rate, mainly for foreign trade, of 1.40 pesos to the dollar over the next few months. Yet in its first few days of trading, the “free” peso rate briefly touched 2.05 pesos to the dollar and, predicts pessimistically Vladimir Werning, an economist at J.P. Morgan Chase, it could hit 2.70 by the end of the year. At this rate, he reckons, the losses from converting small loans into pesos will be about $7 billion, wiping out two-fifths of Argentine banks' capital of $16.5 billion.

This alone would be serious enough. But it is still uncertain what will happen to the $37 billion of loans not covered by “peso-ification” at one-for-one. This week the government announced that large loans could be repaid at 1.40 pesos to the dollar, the official rate. That is one more blow for bankers, who are alarmed and furious at the spate of decrees. On the other hand, the government might change its mind yet again.

Taking into account the $33 billion of government debt on banks' books—only some of which, says Mr Werning, has been written down to reflect the government's inability to repay—Argentine banks' losses might well exceed their capital. And enormous liquidity problems add to worries about the banks' solvency: if and when the deposit freeze is lifted, depositors might all demand their money back at once, something no banking system could withstand.

Although some foreign banks, such as America's Citibank, now part of Citigroup, have been in Argentina for decades, others were attracted more recently by the country's liberalising reforms in the 1990s. They are certainly big enough to withstand losing their entire investment in Argentina. Some analysts reckon that HSBC of Britain might have to take a charge of more than $1 billion, or over one-tenth of annual pre-tax profits, if it decides to stay and recapitalise its Argentine subsidiary. Two Spanish banks, Santander Central Hispano (SCH) and Banco Bilbao Vizcaya Argentaria (BBVA), have committed themselves more heavily. They stand to lose $1.5 billion and $750m, respectively, if they leave. If they

stay, they would need to inject several billion dollars more between them. But even this would not seriously dent their capital.

If they listened to their shareholders, though, foreign banks might well pull out. Peter Shaw, an analyst at Fitch, a credit-rating agency, says that banks' institutional shareholders are furious at the way Argentina is treating them; they will take a lot of convincing that the banks should risk throwing fresh money after bad. On the other hand, if banks withdraw—especially if Argentine depositors are not fully repaid—they risk denting their international reputations, especially in other Latin American countries, notably Brazil and Mexico, where they have big operations.

Banking crises are nothing new, but Argentina's is exceptional in that foreign banks have such a strong presence, and in that its banking system is being de-dollarised asymmetrically. In Mexico's crisis in the mid-1990s, BBVA (then BBV) accepted government incentives and recapitalised its (then small) subsidiary. Mexico's government, however, was able to borrow to finance the incentives; and it persuaded BBV that it would be around for long enough to keep its promises. Argentina offers no such assurances.

Now comes the most delicate part. Walking away would be much easier to justify if the International Monetary Fund were to turn down Argentina's request for $15 billion-20 billion to rebuild the financial system. This, in turn, depends on whether Mr Duhalde passes a tough budget or not in the next few weeks. It also depends on the outcome of the bargaining with the economy ministry over which loans are converted into pesos and at what rate, on when and how the banks will have to return depositors' money, and so on. It is still too early to say if, from the rubble of Argentina's economic chaos, a viable financial system will emerge.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Transatlantic trade

Testing times

Jan 17th 2002 | WASHINGTON, DC
From The Economist print edition

Will America's tax code spark a trade war?

JOINED in a desire to launch a new round of global trade talks, the European Union and the United States put their bilateral spats under the table last year. But with the new round safely launched at Doha in November, they are reappearing.

Top of the list is a row about America's foreign sales corporations, which allow companies to exclude from tax part of their profits earned from operations abroad. The EU has long claimed that this amounts to an export subsidy, prohibited under the rules of the World Trade Organisation. On January 14th the WTO definitively sided with the Europeans, saying that America's law was inconsistent with WTO rules.

Under international trade rules, the next steps are clear. If America does not change its tax code to comply with the WTO, the European Union is entitled to impose counter-measures equivalent to the amount of harm done by the tax provision. One way would be through compensation, with America lowering tariffs on European goods. Another, more pernicious, approach would be retaliation, with Europe raising barriers on American goods. Arbitrators at the WTO have until March 28th to decide how much harm is done (the EU has already suggested the prohibited subsidy is worth $4 billion).

The politics is rather less clear-cut. Neither side really wants a $4 billion trade war. Both Robert Zoellick, America's trade ambassador, and Pascal Lamy, his European counterpart, are keen to defuse the dispute successfully.

It will not be easy. Legally, America has plainly lost. At the same time, everybody knows how hard it will be for George Bush's administration to accept defeat, for it involves scrapping a $4 billion tax-break. Only two weeks ago the president announced that only over his dead body would taxes be raised. There are indeed Republicans in Congress who want to move America away from basing its tax system on citizens' and firms' worldwide income towards a territorial system, as part of a broader tax reform. This would do away with the WTO's objections, but such a change is controversial and certainly will not happen overnight.

While Europeans recognise these constraints, they are in no mood to let America off the hook entirely. Why, after all, should congressional politics absolve the United States from its international commitments? Moreover, European officials point out, America is keen to use the WTO armoury when it suits. America was quick to impose WTO-sanctioned tariffs during a row over bananas. And it has resorted to the WTO in its battles over hormones in beef.

Yet the tax provision is only one trade dispute that America is losing in the WTO. In several areas—from anti-dumping cases to copyright rules—America appears to be in violation of international trade rules. And the biggest potential tiff has not even reached the WTO yet: Washington's imminent imposition of protective tariffs on steel. Within two months Mr Bush will decide what safeguard protection to give the steel industry (an action that, in principle, is legitimate under world trade rules). The EU would be hit by steel diverted on to international markets, so depressing prices. Though there is no link between the tax dispute and steel, the prospect of steel tariffs probably hardens the European resolve to be tough on tax.

One way out of the mess might be to revisit the rules on tax systems and trade during the new Doha round of trade negotiations. In the meantime, suggests Fred Bergsten of the Institute for International Economics, a peace clause could be agreed—a kind of moratorium on retaliation. Still, with WTO rules firmly on its side, the European Union would surely exact a high price for any such agreement. When they meet on January 25th, Messrs Zoellick and Lamy will be haggling over just what that price might be.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lazard

Revival time

Jan 17th 2002
From The Economist print edition

Can Bruce Wasserstein revive Lazard's fortunes?

WHEN Bruce Wasserstein teamed up with Joseph Perella in 1988 to start Wasserstein Perella, an investment-banking boutique, he wanted it to be like Lazard, then one of the world's five top merger advisers. It prided itself on fostering talent. Lazard bankers had enviable connections in politics and business.

Today Mr Wasserstein is the new boss at Lazard, a bank that has lost its shine. Squabbling among Lazard branches in Paris, London and New York—and between the old guard of Michel David-Weill, Mr Wasserstein's predecessor and now Lazard's chairman, and a younger generation—had got acrimonious. Dozens of good bankers have quit. Last year Lazard was not even among the top ten merger advisers worldwide.

Mr Wasserstein will have a job trying to bring Lazard back to its former grace, for all his credentials. As a deal-maker on Wall Street, he was involved in hundreds of mergers and takeovers during the 1980s and 1990s, including the merger in 1997 of Morgan Stanley and Dean Witter, and the merger in 2000 of AOL and Time Warner. He wrote a book called “Big Deal”. His biggest deal was the sale two years ago of Wasserstein Perella to Dresdner Bank for $1.4 billion, of which he pocketed $650m.

Now he will need to open doors and pull deals for Lazard in a tricky environment. Last year the total value of mergers and acquisitions worldwide fell by 45% from a year earlier. This year looks like being little better.

Mr Wasserstein will focus on bringing new talent to Lazard, and also keeping what talent there is. To this end, he has rejigged Lazard's byzantine share structure. He has added to the firm's profit-sharing mechanism a chunk of permanent equity for the working partners, who own about a quarter of the firm's capital but have a claim to three-fifths of its profits.

External investors, such as Crédit Agricole, a big French commercial bank, along with founding families including Mr David-Weill's, control a majority of Lazard's capital but claim only two-fifths of its profits. Mr Wasserstein himself has bought an undisclosed stake in Lazard that makes him the second largest individual shareholder after Mr David-Weill. Working partners who were not previously allowed to sell their stakes may now cash out. Lastly, a slice of equity has been put aside for the benefit of future partners.

Mr Wasserstein can now compete against the rewards offered by the “bulge-bracket” investment banks when scouting for talent. This week David Tashjian, who resigned last October as head of American capital markets at Lazard, took up his old job again. Mr Wasserstein has also talked six bankers from Dresdner Kleinwort Wasserstein (DKW) into joining him, including Jeffrey Rosen, its deputy chairman.

At Lazard, Mr Wasserstein will need to unite troops who, in the words of a former Lazard man, have spent seven years stabbing each other. He is assembling a team that he hopes will be loyal to him. He has sidelined Bruno Roger, a David-Weill protégé. He has also appointed four deputies: Marcus Agius in London, Georges Ralli in Paris, Kenneth Jacobs in New York and Gerardo Braggiotti, who runs Lazard in contintental Europe outside France.

Giving them a sellable stake in the firm will do much to appease bickering partners. Giving them a chance to sell out to an acquiring bank for a high price will do much more. To judge by his own record, Mr Wasserstein is good at such coups. Crédit Agricole, for one, is interested in Lazard, even though it is for now more preoccupied with the possibility of taking over Crédit Lyonnais, a big French bank. Still, it

will take two years at least before it is clear whether Lazard is regaining its former strength. Before that, Mr Wasserstein is unlikely to take Lazard public or sell it, in part or in whole. Timing is all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

A Chinese banker investigated

Something rotten in the realm

Jan 17th 2002 | HONG KONG
From The Economist print edition

China has abruptly sacked a top banker

UNTIL this week, Wang Xuebing was one of the two most cosmopolitan, polished bankers in China. He had attended the London School of Economics, and speaks voluble English. He loves panels at international conferences. He is a connoisseur of red wine.

In the 1990s, Mr Wang was a force at the Bank of China, the least bad and most international of China's four state behemoths, first as head of American operations, then as president of the whole bank. Sporadically, rumours arose of shady dealings—for instance, over loans to an American-registered company part-owned by his wife—only to dissipate. They did not stop Mr Wang from rising within the Communist Party (he was an ally of the prime minister, Zhu Rongji). Still, some say that the rumours were one of the reasons why the party moved him, in 2000, out of the Bank of China and to the helm of another of the four state banks, China Construction Bank.

The Bank of China was then already expected to lead the restructuring of China's banking sector, and political leaders may have felt that this should best happen under a different president. He turned out to be Liu Mingkang, the only Chinese banker even more suave than Mr Wang. Mr Liu happily discusses the subtleties that distinguish Byron from Shelley.

It has fallen to Mr Liu, therefore, to prepare the Bank of China for the first step of its restructuring: an initial public offering, to international investors, of shares in its Hong Kong and Macau operations. Originally planned for last year, the offering has now been delayed. The bank is being investigated by American regulators over its dealings in the 1990s. This week, China's official auditor said that it, too, was looking into 22 cases of “financial irregularities” that occurred during 2000, when Mr Wang was still chairman.

If Mr Wang's sacking, and the continuing investigation into him, are intended to send a signal, it is that China is serious about cleaning up the financial sector. For Mr Wang himself, the downfall is cruel. He is only 49, and he appeared to have grown fond of the trappings of power. Still, he has seen lows before. During the Cultural Revolution, he was once left to lie, sick with flu, by the side of a road in Inner Mongolia, when the temperature was minus 30°C. He would have died, had an officer in a passing army truck not noticed him, and taken pity. Perhaps Mr Wang, like many Chinese of his generation, can keep his sense of perspective.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letter from Zurich

A very Swiss affair

Jan 17th 2002 | ZURICH
From The Economist print edition

If a Swiss airline is too big to fail, what about a large Swiss bank?

THE burghers of Zurich have just voted, by a narrow margin, to back a rescue package for their national airline, a successor to Swissair. The importance of Zurich as a hub for air travel, it seems, goes beyond hard-nosed commercial considerations. The vote cancelled some of the bitterness left over from last October, when Swissair was grounded. The public then blamed not the ill-run airline for its downfall, but the scheming heads of Switzerland's two biggest banks. Marcel Ospel, chairman of UBS, and Lukas Mühlemann, chairman of Credit Suisse, sweated in front of television cameras as they tried vainly to explain that Swissair had brought this on itself, by messily declaring a debt moratorium.

The story underscored the tension between the big banks' global aspirations and their local obligations. The banks are a powerful presence around the world, yet they have roots in a small country with a mesh of business interests and homespun politics that they ignore at their peril. Daniel Zuberbühler, head of Switzerland's banking regulator, the Federal Banking Commission, takes the rescue of Swissair an intellectual step further: what happens in the barely imaginable event that failure threatens one of the big Swiss banks? He recalls a question asked of the Swiss government in 1998: if these banks are “too big to fail”, do they have a government guarantee? “No—but it depends,” was the Delphic reply.

Most people assume that these banks really are too big to fail. If so, how they are run is crucial. Mr Ospel, it seems, exceeded his powers last October when, as chairman not chief executive, he pledged UBS's support for a SFr1.4 billion ($860m) rescue of Swissair. That ought to have been a decision for the group executive board, but it was not consulted until a few days later. A petty distinction, perhaps, since Mr Ospel was flanked by the bank's legal counsel and chief credit officer when he made the commitment. Still, it highlighted a problem at UBS that later led to confrontation with Luqman Arnold, a strong-headed Briton who was president of the group executive board. Mr Arnold was sacked just before Christmas.

At the least, Mr Ospel seems unable to delegate power properly. When he raised himself last April from chief executive to chairman, the title of chief executive lapsed. With Mr Arnold as president, there followed months of uncertainty about who was running the bank. Peter Wuffli, Mr Arnold's successor, has the same title, but the soft-spoken Swiss is not expected to give Mr Ospel much trouble. “He is an active chairman,” parries Mr Wuffli, “but the group executive board has always had the authority to run the bank.”

Mr Ospel may look enviously down Zurich's Bahnhofstrasse at Credit Suisse, where Mr Mühlemann is chairman and chief executive of a holding company, not a bank. This is not allowed at banks such as UBS, whose board of directors (on which the chairman sits) and group executive board must be wholly separate. This separation is all the more difficult in a small country that boasts several global giants, such as Roche and Nestlé. All the boardrooms tend to be full of the same people.

Given this quirky domestic background, what chance for the Swiss banks to succeed as global players? Despite their local difficulties, they are remarkably well positioned. Together, they have half of a small but profitable domestic retail base. Their corporate-loan books look bad, admittedly—and worse since the Swissair debacle—but outside Switzerland, where they concentrate on investment banking and asset management, the banks are fighting machines.

Credit Suisse is the best-placed European bank to compete in America with the Wall Street banks. It bought First Boston, a broker-dealer, in 1988 and added Donaldson, Lufkin & Jenrette, another investment bank, in 2000. Its biggest problem has been capping the expectations of high-flying investment bankers—but that was partly achieved last year, when John Mack, a respected Wall Street cost-cutter, replaced Allen Wheat as chief executive of CSFB. Analysts rate Credit Suisse a good bet in a

bull market, when its high costs may be less of a problem.

UBS, the world's biggest asset manager, has striven to make investment banking competitive even as it smooths notoriously lumpy earnings. For instance, it has hedged half of the credit risk in UBS Warburg, its investment-banking arm. The bank is the result of a merger in 1998 of two big Swiss banks, Union Bank of Switzerland and Swiss Bank Corporation. Swiss Bank had bought Warburg, a British investment bank, and O'Connor, a Chicago derivatives house, which gave UBS its swashbuckling but risk-aware culture. It had little exposure to Enron, the energy giant—or to Swissair before last October.

Now, UBS Warburg has bid for Enron's trading operations. John Costas, its (American) chief executive, admires Enron's online trading technology, which he thinks might be applicable to trading foreign exchange as well as electricity and natural gas. UBS is also dealing with the decline that threatens all offshore banking centres, given today's trend towards greater transparency. It bought PaineWebber, an American retail broker, in 2000. This week it publicised its relatively new “European wealth initiative”, which attempts to service, in their home countries, international clients of “Swiss” private banking.

With all this promise, questions remain about whether either Swiss bank has the management to take things forward. Credit Suisse's great hope is Mr Mack. Elsewhere the air of management consultants hangs too heavily: Mr Mühlemann and another board member, Thomas Wellauer, are former McKinsey men.

So is the uncharismatic Mr Wuffli at UBS. Investors were shocked by Mr Arnold's departure from UBS, since they believed that he headed an effective team which may now disintegrate. Marcus Granziol, a Swiss once viewed as a possible successor to Mr Ospel, is now chairman, not chief executive, of UBS Warburg and may well leave sooner rather than later. Analysts fear that Mr Ospel is surrounding himself with yes-men rather than international talent—with all due respect to Mr Costas. This month and in November Mr Ospel nominated two new faces to the UBS board of directors. Unfortunately, both were Swiss.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Remember fiscal policy?

Jan 17th 2002
From The Economist print edition

How to use fiscal policy in a recession

THE standard objections to the use of fiscal policy—ie, changes in budget deficits or surpluses—to dampen the economic cycle take two main forms. First are economic arguments that fiscal policy will have less of an effect on the economy than its advocates suppose, or even no effect at all. Second are political arguments that, even if taking the right fiscal steps would help the economy, governments are incapable of designing the right measures or enacting them at the right time. The endless squabbling in Washington over the proposed economic-stimulus bill seems to confirm the truth of this second claim: so far as one can tell, by the time a bill emerges from Congress, it will almost certainly be both badly designed and too late. Evidently, activist fiscal policy is best left alone; monetary policy is a better counter-cyclical tool.

And so it is, usually. When it works, monetary policy is fine. But sometimes it does not work. Problems arise, especially, under the circumstances that most interested Keynes when he first developed his thinking on deficit spending as a cure for recession—that is, at times of low, or even negative, inflation.

Until quite recently, thinking about how to conduct macroeconomic policy under such circumstances was an academic, even unreal, exercise. For years, up to the 1990s, inflation was high. So nominal interest rates were also high, on average, over the course of the cycle, giving monetary policy plenty of room for manoeuvre. Yet now that inflation and nominal rates are low, the scope for monetary relaxation is more limited—or at any rate, less obvious. Certain kinds of recession, including America's today, may also be less susceptible to lower interest rates. All this suggests that fiscal policy deserves another look.

Consider first the economic argument—the claim that fiscal stimulus is ineffective, because people adjust their behaviour to cancel it out. The strongest version of this idea is due to Robert Barro, now at Harvard, who developed a theory that, if governments cut taxes or increase spending, consumers will increase their saving (because they expect higher taxes in future) so as to offset the stimulus entirely. But although this remains an intriguing and influential insight—it spawned an enormous theoretical literature—there is little evidence that it is true.

A smooth idea

However, there is more to fiscal scepticism than Mr Barro. Too much public borrowing may raise long-term interest rates, offsetting the stimulus in a milder way. Such crowding out happens, the evidence shows, but only partially. Simple theory suggests another objection. People will prefer to smooth out their spending over time, rather than swing between famine and feast. So if the government enacts a once-off tax rebate, theory would lead one to expect that people would spread increased consumption over time, rather than go out and binge. In that case, a fiscal stimulus might be smoothed so much that it would have hardly any effect in the short term, when it is needed, but continue to boost spending later, when that may be the opposite of what is required.

In an article* last summer in *Challenge*, an economics journal, Laurence Seidman of the University of Delaware looked at recent evidence on the smoothing idea. The consensus is good news for fiscal policy: people do not smooth nearly as much as they “should”. The studies suggest a variety of reasons for this. Most consumers may be too uncertain about the future to plan much ahead. Or they may lack the wealth or borrowing capacity to make smoothing work, and are therefore accustomed to living paycheque by paycheque. In any event, the evidence is that consumption smoothing does not neutralise the stimulus effect of tax cuts.

One would expect public spending to have an even bigger initial stimulative effect than tax cuts (because in this case none of the initial stimulus is saved). But spending is highly vulnerable to delay. Planning and administering a big rise in spending, and organising political support for it, are likely to take far longer than is required to arrange a tax rebate. Temporary increases in, say, support for the unemployed make better sense, in this respect, than programmes of public works. In any case, if counter-cyclical fiscal policy is to work, speed is crucial.

To that end, Mr Seidman discusses ways in which counter-cyclical fiscal policy, at least in America, could be made more automatic, either by having Congress pre-approve tax rebates that could be triggered by economic data, or by setting up an independent board (in its relationship to Congress, rather like the Federal Reserve) with powers to make limited changes to tax rates in response to economic circumstances. (The second approach was mulled over, favourably, in an article here in 1999.) It all seems very ambitious. Politicians, whose privileges are at stake, will not be keen. But there is no denying that, now and then, arrangements such as this would be nice to have ready.

At least governments should open their minds to the idea that the fiscal option needs to be restored. Automatic or independent fiscal-policy adjustment (on top of so-called automatic stabilisers that operate in any case) may be difficult to develop. But once a country has achieved a reasonably sound long-term fiscal position, its government should regard that as an asset that can be drawn upon. Surpluses are not an end in themselves. Budget balance on average, together with wide and well-timed fluctuations around the average according to circumstances, is clearly the policy to aim for.

---

*"Reviving Fiscal Policy" by Laurence Seidman. *Challenge*, May-June 2001.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Correction

Jan 17th 2002
From The Economist print edition

In our issue of January 5th, we said that Sanwa Bank would merge with Tokai Bank in April. We were wrong. The two banks merged on January 15th, to become UFJ Bank. Sorry.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Conservation in the Falkland Islands

Virtue rewarded

Jan 17th 2002 | STANLEY
From The Economist print edition

Corbis

Conserving the Falklands' resources is the key to their continuing prosperity

THE earliest visitors to the Falkland Islands were intent on depredation. In the 18th and 19th centuries whales, seals, sea lions, penguins and albatrosses were exploited to the brink of extinction in the hunt for their oil, skins and eggs. When Britain occupied the islands in 1833, the herding of sheep replaced the exploitation of wild animals as the islands' economic mainstay, but that did not help the local ecosystem much. The sheep almost wiped out the tussock grass that provided nesting sites for marine birds. The settlers also exterminated the Falklands' only native land mammal, the warrah (a species of fox).

Now things could hardly be more different. The islanders have realised that ecology pays dividends. Sheep may still safely graze on the Falklands, but wildlife is positively welcome to share that grazing. And the latest round of hunting—for invertebrate, rather than vertebrate prey—is informed by ecological studies that have increased yields but still maintained populations at sustainable levels.

Squid pro quo

The Falklands' ovine monoculture went into decline in the 1960s, but until the Argentine invasion in 1982, nobody in the outside world took much notice. After Argentine troops were ejected, though, British government scientists started looking more seriously at what was in the waters surrounding the islands.

What they found were huge quantities of squid—particularly two commercially important species called *Illex* and *Loligo*. *Illex* is a popular delicacy in East Asia. *Loligo* graces Spanish restaurants as *calamares*. Some of the money obtained by selling licences to catch these squid has found its way back to researchers who are studying the squids' life cycles, so as to exploit them efficiently without exterminating them.

Sasha Arkhipkin, the islands' chief fisheries scientist, studies *Loligo*. His work has revealed that this squid's South Atlantic population is divided in two: a winter-spawning group that reproduces from May to July; and a summer-spawning one, which breeds in October and November. The offspring of the summer spawners seem more vulnerable to predators, because their hatching and early growth coincides with the penguin breeding season, when those birds are hunting most.

In 2000 the fisheries scientists addressed this problem. Having identified the main *Loligo* nursery

grounds, they recommended postponing the opening of the fishing season in these areas for a few months after summer spawning. The infant squid that escaped the penguins were thus given more time to grow, and when fishing started the fishermen were able to land a bumper catch that more than made up for the wait.

In the case of *Illex*, the islanders' chief competitors are not penguins but other people. While *Loligo* stays in Falklands' waters all year, *Illex* migrates. Its South Atlantic population swims down South America's coast from southern Brazil, circles the Falklands in February, and then returns north in April. Understanding the details of this migration allowed the Falklands' and Argentine governments to come to an agreement to close their *Illex* fishing season early in 2001, to give the stock a chance to recover from overfishing. The two governments have also set up a scientific commission to advise them on the desirability of further closures in the future. Michael Harte, the Falklands' government's economic adviser, hopes that the *Illex* agreement will become a model for deals on other species that face overfishing because their migrations straddle different human jurisdictions.

P-pick up a penguin

As well as financing studies of the fisheries themselves, the money from fishing licences has allowed the islands' government to support research by Falklands Conservation, an organisation that studies both offshore and onshore species, and manages some wildlife sites on the islands. Besides being environmentally friendly, this work makes economic sense. The rising popularity of eco-tourism means that the number of visitors staying on the Falklands has grown to some 3,000 a year—about the same as the archipelago's population.

On top of that, around 40,000 tourists a year sail through Stanley harbour on their way to Antarctica and sub-antarctic islands such as South Georgia. Many of them call in on the Falklands' spectacular penguin, albatross and seal colonies while their ships are in dock. The farmers who own Volunteer Point, one of the best places to see king penguins frolicking on the beach, now earn more from charging admission to tourists than from selling wool from their sheep.

All this has been good for the penguins. After a shaky start, when over-enthusiastic visitors almost wrecked a site called Gypsy Cove by trampling over the birds' breeding grounds (which are known as rookeries), penguin numbers are increasing. Since Falklands Conservation cordoned off the cove's main rookeries in 1999, the number of breeding pairs there has more than doubled to 354. Other areas have done well, too. The king penguin, which had been wiped out in the Falklands by 1870, has returned with a vengeance. A survey in 1980 found 150 breeding pairs. Now, there are about 500. The islands also have huge colonies of the smaller gentoo and rockhopper penguins: studies show that these populations are currently stable and that the fishing boats do not pose serious competition for their food supply.

The king penguin, which had been wiped out in the Falklands by 1870, has returned with a vengeance

Not all the ornithological news is rosy, however. While penguins may co-exist with fishermen, albatrosses do not. Nic Huin, a researcher at Falklands Conservation, has discovered a steep fall in the population of the black-browed albatross, for which the islands are the world's main nesting area. Similar declines have been noted in other albatross species. The cause seems to be “long-line” fishing, which involves unreeling a fishing line with a series of hooks carrying bait. Albatrosses and other marine birds swoop on the bait, get caught on the hooks, and are dragged under water.

This can be avoided by attaching streamers to the fishing lines to scare the birds away; by unreeling the lines at night; by attaching weights to the lines so they sink faster; or by using a device that attaches the bait after the hook goes under water. The Falklands' government has now imposed such measures on boats fishing in its own waters. But albatrosses are still being killed elsewhere in the South Atlantic.

Even here, though, economic self-interest may help conservation. As John Croxall of the British Antarctic Survey observes, “every bird on a hook means no fish on that hook”. Catching birds wastes time and money for fishermen. But fishermen are cussed creatures, who tend to resist changing their ways. Whether the expected declaration, later this year, that the black-browed albatross is officially a threatened species will make any difference remains to be seen.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Animal behaviour

A strange fable

Jan 17th 2002
From The Economist print edition

For some natural phenomena, science has no ready explanation

The calf and the young lion will feed together (Isaiah 11:6)

ANY relationship between a lioness and an oryx calf might be expected to be both brief, and terminal for the latter. That between the animals in the picture was, indeed, terminal for the calf. But it was by no means brief, and it was not the lioness that did the terminating. This odd couple was spotted in the Samburu game reserve in Kenya on December 21st, and was tracked and filmed by Saba and Dudu Douglas-Hamilton, two wildlife photographers, until another lion killed the calf on January 6th.

Cross-specific fostering of this sort can be made to happen in the laboratory, if the fostered individual is young enough to “imprint” on another animal as though she were its mother (and, obviously, if the surrogate mother accepts it—as she may if she has recently given birth). What makes this case bizarre is that the oryx's mother was still alive and lactating, and that the lioness was young and showed no sign of ever having given birth. Also, the Douglas-Hamiltons observed that it was the lioness who followed the calf (for example when it went back to its mother to suckle), rather than the other way round. Why she wanted to adopt something that ought to have pressed the button labelled “lunch” is a mystery.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Fingerprint evidence

Printing errors

Jan 17th 2002
From The Economist print edition

A judge has ruled that fingerprint evidence is scientifically unreliable

"BOOK him", says the crusty sergeant at the local precinct, and another villain is led off to be fingerprinted. For nearly a century, suspects have lived in fear that matches to their prints will turn up at the scene of the crime. Such fears have now been reduced a little. In a ruling on January 7th, Louis Pollak, a federal judge in Pennsylvania, decided that fingerprint evidence was unreliable. He declared that he will no longer allow fingerprint examiners testifying in his courtroom to tell juries point blank whether prints from defendants and those collected at crime scenes do or do not match. Instead, they will have to present evidence to persuade a jury that they are the same or, as the case may be, are not.

This is the first ruling of its kind in the American courts, although fingerprinting evidence has been open to such a challenge for years. In the 1990s America's Supreme Court deemed it the responsibility of federal judges to insist that expert witnesses testify about the reliability of a forensic-scientific method only if the method in question has been tested so that the range of its error rate is known. Fingerprinting experts have long claimed that their error rate in matching prints is zero—but without any supporting evidence.

This claim is scientifically dubious, for two reasons. One is that many prints collected at crime scenes are so-called latent prints, meaning that it takes special chemical treatments, or illumination with ultraviolet light, to "recover" them. Such latent prints are often incomplete and indistinct, and might not produce unique matches. The other reason is that declaring a match between two prints generally requires a certain number of points of similarity between them. Different jurisdictions set varying standards for how many similar points are required, which makes this standard seem arbitrary. Even worse, in some jurisdictions declaring a match requires only an overall "impression" of similarity on the part of an expert.

Judge Pollak's 49-page ruling leaves plenty of room for debate. The judge did not dismiss fingerprint evidence entirely, saying that such a step would be "unwarrantably heavy-handed". He stated that witnesses for both sides in *United States v Plaza* could testify how fingerprints were obtained and about similarities or differences between them. That will allow defence lawyers to poke holes in the testimony of the prosecution's witnesses. The judge will also permit experts to tell juries the oft-repeated dogma that every person's fingerprints are unique, a claim that the defence will no doubt challenge.

The controversy will continue outside Judge Pollak's courtroom, too. Other American courts are not necessarily bound by the ruling, and America's Department of Justice may seek to reverse it. Still, Judge Pollak's views carry considerable weight because he is a former dean of both the Yale and the University of Pennsylvania law schools, and has repeatedly been invited to sit on the appeals courts. Two professors of law—Elizabeth Phillips Marsh of Quinnipac University in Connecticut, who heads the American Bar Association's section on evidence, and Jennifer Mnookin of the University of Virginia—have called his ruling "exceptionally well-reasoned".

Challenges to fingerprint evidence—not to mention other dodgy forensic methods—will keep growing

Regardless of how Judge Pollak's ruling fares, two changes are likely. One is that challenges to fingerprint evidence—now more than 20 in America alone—will keep growing, especially in cases where other evidence suggestive of a defendant's guilt is weak or missing. The other is that, if fingerprints lose their scientific status, so might other dodgy forensic evidence, such as handwriting analysis or making matches from eye and hair characteristics. Ballistics experts might also come under fire, because the marks left on bullets change as the rifling inside a gun barrel undergoes the wear and tear of repeated use.

Even the current “gold standard” of evidence, DNA testing, may face challenges. However, matches made with DNA are already expressed as statistical probabilities rather than as certainties. Thus it is the admitted error of DNA testing, rather than its claims to infallibility, that will safeguard its continued use in the courts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Mathematics

A new wave

Jan 17th 2002
From The Economist print edition

Capturing digital information may be about to become more accurate

BEFORE 1948, the world was analogue. Then Claude Shannon, a mathematician at Bell Laboratories in New Jersey who was famous for unicycling around the corridors of that august institution, realised that words, pictures and sounds could be represented and transmitted using streams of ones and zeros. The conversion of analogue to digital was the start of the information revolution, and Shannon's way of doing it—a technique known as uniform sampling—has not changed much since then.

Until now. Akram Aldroubi, of Vanderbilt University in Nashville, Tennessee, and Karlheinz Gröchenig, of the University of Connecticut, have described a new way of sampling analogue signals that could overcome many limitations of Shannon's method. Although this technique may have only a small effect on everyday applications, such as the recording of music, it could revolutionise fields such as body-scanning that need to process information by the bucketful.

An analogue signal is, in effect, a wave. Uniform sampling measures the height of the wave at regular intervals and stores the results as binary numbers. When a CD is recorded, 44,100 samples of the original signal are taken every second. When the recording is played back, those numbers are used to reconstruct something close enough to the original that the human ear cannot detect much difference.

One problem with this type of sampling is that the original analogue signal has to be “band limited”. This means that the signal must stay within pre-defined limits (in the case of music, within a particular range of frequencies), otherwise the sampling becomes inaccurate. Unfortunately, signals in the real world are rarely band limited. Musical recordings get round this problem because human hearing is itself band limited: notes above and below certain frequencies are inaudible. Other applications, though, are more sensitive. Magnetic resonance imaging (MRI), a common body-scanning technique, generates so much data that imposing any band limit inevitably results in a loss of information, to the detriment of the patient.

Dr Aldroubi and Dr Gröchenig think they have come up with a set of mathematical algorithms that will allow the fast and robust reconstruction of signals from digital samples without the need to worry about band limits or uniform sampling. Any wave, no matter how complex, can be described by what is known in maths-speak as a function. The aim of systems such as CD and MRI, which turn digital data back into analogue so that people can interpret the result, is to reconstruct this function from the digital data. Dr Aldroubi and Dr Gröchenig are able to do this from data that are the result of non-uniform sampling. That allows a signal to be digitised in a more sophisticated way—sampling it at frequent intervals when it is changing rapidly, and less often when it is changing slowly. Band limits imposed by uniform sampling thus go away.

Instead of being done as a single step, the new method employs a series of iterations. First, the original sample is analysed using one of the algorithms. This initial iteration, in Dr Aldroubi's words, makes a “very poor man's approximation of what the function is like”. It does not describe the function's actual shape, but roughly fits the “mathematical space” in which the function lies. This approximation is then compared with the sample data, and the errors between the two are calculated by the algorithm in order to eliminate them. That process is repeated, each iteration reducing the discrepancy between function and data, until an adequate and efficient match is reached. The final version is then ready for use. It is a piece of lateral thinking of which even the unicycling Dr Shannon would surely have approved.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Internet shares

Do you sincerely want to go crazy?

Jan 17th 2002
From The Economist print edition

The great dotcom boom had more to do with credulity than deceit

Get article background

dot.con: The Greatest Story Ever Sold
By John Cassidy

HarperCollins; 372 pages; $25.95
Allen Lane, The Penguin Press; £9.99

Buy it at
Amazon.com
Amazon.co.uk

ONLY last summer, the bars of Palo Alto, San Francisco and Manhattan swarmed with might-have-been millionaires, drowning their sorrows over tales of cash thrown at barren websites, of dotcom initial public offerings pulled moments before the gong, of paper fortunes that got away. How long ago it all feels.

If those hopes and dreams now appear to fall somewhere between the adolescent and the deranged, why did they capture the imagination of so many of the brightest people in America—and, a little later, the rest of the world? Was it, as some multi-billion-dollar class action lawsuits now contend, a cynical fraud against ordinary investors by conspiring nerds, callow MBA graduates and financiers?

From the title, it might sound as if that were indeed the drift of “dot.con”, John Cassidy's shrewd and entertaining account of the mania for Internet shares. But his real lesson, as sobering in its way, is that the boom arose not from knavery but from credulity on a grand scale.

In the history of financial bubbles stretching back beyond the South Sea Company to tulip bulbs, dotcom shares may well have been the most inflated securities ever sold (though Enron's run a close second). There was never a time when so many businesses obeyed what Mr Cassidy, a sceptical Yorkshireman who writes on economics for the *New Yorker*, calls “Amazon's Law: the more money it took in, the more it lost”. In illustration, Mr Cassidy has two special favourites: Excite@Home, which in its six years of life profitlessly spent over $10 billion, and Priceline, which went from a market capitalisation worth more than the entire American airline industry to one worth less than two Boeing 747s.

Showmanship played its part. Jeff Bezos founded Amazon in a garage only to be able to say that the online bookseller had started out in one. A rather deeper problem was a conflict within investment banks. Wall Street analysts such as Mary Meeker and Henry Blodget were cheerleading for companies that their investment bank was taking public, while offering supposedly neutral analysis of these firms' prospects for brokerage customers.

Yet entrepreneurs and analysts for the most part believed the hype as much as anybody else. Their sincerity is borne out by the fact that few of them cashed out more than a fraction of their paper wealth before the bust. In the main, they and their accountants dreamed up ingenious new ways of valuing companies that explained away lack of profits and opaque book-keeping not so as nakedly to defraud investors but because they really believed they were living through a financial revolution.

If “dot.con” has a weakness, it is that, as a follower of the dismal science, Mr Cassidy sounds far too rational ever to have let the lure of the Internet turn his head even for an instant. He dryly observes that

the classic financial bubble starts with what he calls a displacement that radically changes people's expectations. Perhaps so, and we should be more watchful. But you never feel that Mr Cassidy, unlike many of his peers, was even remotely tempted to trade the security of Condé Nast for the rough-and-tumble of an Internet start-up. This apparent risk-aversion may have led him to an unduly negative conclusion. Can we be sure the bursting bubble was really the end of a high-tech revolution and not just the end of the beginning?

Mr Cassidy is nevertheless right to argue that stock bubbles grow in predictable ways, often for surprisingly rational reasons, only to end in irrational exuberance. His account of both the rise and fall of Internet stocks is thoroughly persuasive. As for responsibility, Mr Cassidy thinks government officials and journalists were unequal to their job of maintaining sanity. He is particularly scathing about America's central banker, Alan Greenspan, who should, he thinks, have done more to stop the bubble getting so big. Yet the broader moral of Mr Cassidy's melancholy tale has really to do with individual choice: those who went crazy in the Internet boom did so largely because they wanted to.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

John Ford

Print the legend

Jan 17th 2002
From The Economist print edition

“WHEN I direct a scene, I always want to make the leading lady fall on her derrière.” That was John Ford, widely regarded as one of America's greatest film makers, talking from another age in 1964. In “The Quiet Man” (1952) and “Donovan's Reef” (1963), that was mostly what he did.

How can we reconcile this low Irish streak, as his wife put it, with the man who did eloquent justice to the ideals of the great emancipator in “Young Mr Lincoln” (1939), to John Steinbeck's vision of dustbowl hardship in “The Grapes of Wrath” (1940) and to the legends of the closing of the American frontier in his glorious cavalry trilogy: “Fort Apache (1948)”, “She Wore a Yellow Ribbon” (1949) and “Rio Grande” (1950)?

Searching for John Ford: A Life
By Joseph McBride

St Martin's; 848 pages; $40.
To be published in Britain by Faber and Faber in February 2003

Buy it at
Amazon.com

Joseph McBride's superb biography offers convincing evidence of a split personality running through Ford's life and work. He was a Catholic who found his greatest inspiration in the Protestant west, a bully who abused cast and crew yet donated his $300,000 director's fee to kick-start a home for war veterans. A bundle of contradictions, Ford was adopted by the Navajo nation but tolerated such racist lines, addressed in “My Darling Clementine” (1946) to an Indian maid, as “I'll run you back to the reservation where you belong”. As for blacks, he swatted Woody Strode with the butt end of a rifle and told him to “quit niggering up my god-damned scene”. That Ford rode as a Klansman in D.W. Griffith's “Birth of a Nation” seems less surprising than that Stepin Fetchit, another black actor, adored him. Politically, especially in the red-scare years, he sat on both sides of the fence, challenging Hollywood's right to blacklist communists, but never employing one himself.

Ford presented a similar mask with regard to his own work, mercilessly ribbing any interviewer he regarded as pretentious and denying that his work was anything more than a contract job done for studios that retained final editing right. But he always cut in the camera, shooting just enough film so that there was only one way it could be assembled in the cutting rooms. He feigned artistic ignorance, pretending to allow his directors of photography to set up the shots. But how telling it is that cameramen as distinctive as Gregg Toland (“The Grapes of Wrath”), Joseph August (“They Were Expendable”, 1945), Gabriel Figueroa (“The Fugitive”, 1947) and Winton Hoch (“The Searchers”, 1956) all produced cinematography for Ford with a marked family resemblance.

Ford was leery of his softer side and at pains to hide it. A Catholic husband, “but not very Catholic”, he enjoyed women's company and numbered Katharine Hepburn and Maureen O'Hara among his close friends. With rare exceptions, he shied from depicting truly passionate relationships between men and women.

Wearing academic and critical hats as a San Francisco university teacher and former *Variety* reporter, Mr McBride also analyses Ford's work, venturing new slants on old favourites. He brings out, for example, a contemporary parallel in “Rio Grande”, likening the cavalry's raid into Mexico to General MacArthur's proposal to carry the Korean war into China. The author's press background ensures that this book has spice as well as erudition.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Wells Fargo

Ponying up

Jan 17th 2002
From The Economist print edition

TO ITS contemporaries, Wells Fargo's red and yellow livery signified speed and reliability in a vast and lawless realm. Between 1870 and 1884, some 300 of its stagecoaches were attacked, but surprisingly few coachmen died. Wells Fargo pursued culprits mercilessly. Its slogan, “Wells Fargo never forgets” set a standard for federal lawmen.

Stagecoach: Wells Fargo and the American West
By Philip L. Fradkin

Simon and Schuster Source; 272 pages; $27.50

Buy it at
Amazon.com
Amazon.co.uk

Journeys were arduous. Passengers were thrown around and caked in fine dust. They slept on dirt floors and ate rotten food. “Spit on the leeward side of the coach,” advised Horace Greeley, of the *New York Tribune*, after taking the Overland in 1859. Routes spanned wild country as finely as strands of silk. Remote watering stations were subject to Indian raids. Sometimes heroics were called for. One express rider, known as Pony Bob, rode 380 miles in 36 hours in 1860, chased by hostile Indians.

Wells Fargo shared its bluechip New York parentage with American Express, but became synonymous with the west, from the Mojave desert to the Cascades and back to San Francisco's Chinatown. What began after the Californian gold rush as a service for miners, delivering mail and exchanging gold dust for coin, evolved into a continental express business. By 1900, Wells Fargo was errand-boy to the great cities of the Atlantic seaboard, shipping Pacific fruits, wines, vegetables, salmon and beef in refrigerated railway carriages. Later it abandoned the express business for banking. From its Californian base it now operates in 22 other states. Philip Fradkin has neatly compacted this sprawling history into a slender volume—but without the lustre of the old west.

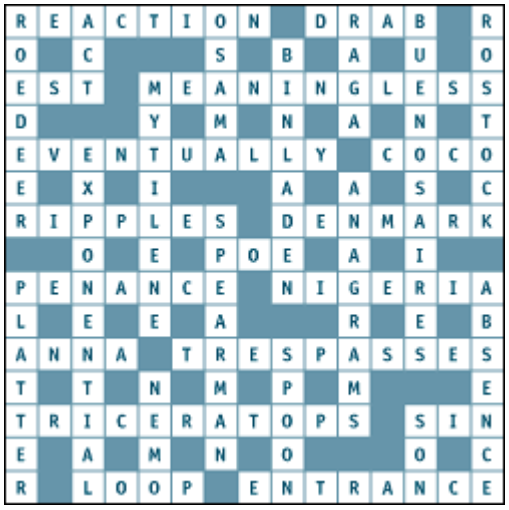
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Christmas crossword prizewinners

Congratulations, they're abroad

Jan 17th 2002
From The Economist print edition

Global clues for global solvers



HOW simple life was then. There in London sat the crossword setter in his leather armchair, quill pen in hand. To indicate an anagram he added "(anag.)" to the word concerned. An L? Easy: "student", a British learner-driver. The letters ELY? "See", to sharp eyes not that verb but the bishopric of Ely. "Caught", "over" and "run" were giveaways for the cricket scorer's C, O and R.

How different it is setting for a global readership, half of it more familiar with baseball and five-sixths outside Britain. So while any setter's bag of tricks has swollen in recent years, ours has also had to lay aside a rich armoury of deception dependent on British culture.

It can be done. Witness this year's two prizewinners. Both, for the first time, come from mainland Europe, albeit one, Philip Minchom, of Oosterhout, in the Netherlands, is English. Congratulations also to Carol Schild, of Baar, Switzerland. Each will receive a Folio Society edition of "Cold Comfort Farm", a 1930s classic, enduringly funny—for everyone who relishes Britishness.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Medieval history

The rise of Europe

Jan 17th 2002
From The Economist print edition

Europe first formed itself between the 11th and the 14th centuries

Europe in the High Middle Ages
By William Chester Jordan

Allen Lane, The Penguin Press; 383 pages; £25

Buy it at Amazon.co.uk

THIS is the first volume to appear of the Penguin History of Europe, which will eventually cover the history of the continent from classical times to the modern day in eight volumes, each by a specialist author. It is a well-tried publisher's formula, but is it worth it? Occasionally, a single volume in such a series shines out as a serious and original work of scholarship. A few series succeed as a whole by dint of a tyrannical general editor, a rigorous formula, and uniformly brilliant authors. The great Glotz universal histories published in France last century came close to it. So, with a few exceptions, did the old "Oxford History of England" and the old Cambridge histories of Europe, both now replaced by less satisfactory products from the same stables. The authors of such textbooks need the verve of the broad sweep, an ability to avoid current professional clichés, and a profound familiarity with the primary sources that can produce the obscure but telling detail at exactly the right point in the text. These skills are hard to find in an age of academic specialisation. It is therefore rather unfair to William Chester Jordan, a professor of history at Princeton University, to say that he has not struck gold in this volume. It is true nonetheless.

His subject is the three centuries from the beginning of the 11th century to the middle of the 14th. It was in a number of ways a formative period, perhaps the formative period in European history. The power of the state was built up on new foundations to something like the status which it had enjoyed in Roman times, and endowed with a bureaucratic apparatus such as Rome had never had. The simultaneous arrest of almost all the Templars in France on a single day in 1306 was a spectacular exhibition of governmental power on a par with the police states of modern times. England and France, the two dominant nation-states for most of the continent's history, came into being in more or less their modern form. The first major commercial cities appeared, as a monetary economy spread further into the corners of western life. Huge tracts of forest disappeared under the plough to provide crops for a relentlessly rising population. The physical landscape of Western Europe took on the form which it retained until the industrial revolution.

The priest-ridden societies of the Middle Ages are often regarded by non-medievalists as having reached their apogee in this period. Yet it was the time when the brief experiment in theocracy attempted by the 11th and 12th-century popes failed and lay governments paying lip-service to the autonomy of the church finally closed their grip on its public powers and much of its wealth. Pope Gregory VII may have humiliated the Emperor Henry IV, as Innocent III later humiliated Philip Augustus of France and King John of England. Both of these monarchs, however, had the last word. Philip the Fair of France, a century later, certainly did. He almost succeeded in arresting Pope Boniface VIII at Anagni, and his sons domesticated Boniface's successors at Avignon.

It is true that the surviving evidence of an intensely religious society is impressive: the superb gothic cathedrals of the 13th century, the fine poetry of the French and German epics, the leading universities of France, England and Italy, a whole world of sculpture and manuscript painting. Yet beneath the formal structures of ecclesiastical authority, the expression of religious feeling was increasingly laicised and its doctrinal base became progressively more heterodox. The Inquisition was a public recognition of the failure of the priests.

The difficulties of writing this type of history are extreme when a single volume of just over 300 text pages has to cover a diverse continent from Ireland to Poland, from Bergen to Palermo, over a period when it was changing so fast. Mr Jordan has avoided the Cambridge History formula of independent essays on each national community. He is too good a historian to go to the opposite extreme and adopt the French vice of imposing consistent themes on inconsistent times and places, or looking for rhetorical effect in implausible analogies.

But without committing any of these useful sins, how is a history of Europe to be written? Mr Jordan's solution is a judicious mixture of chronological and thematic sections, looking at large regions, and hopping from one idea to the next as suitable cues present themselves. So far as there is a right way to do these things, this is probably it. The difficulty is that it requires much more space than Mr Jordan has been allowed, especially if the basic facts have to be worked in as well. The blurb predicts that Mr Jordan's book “will become the standard work on the subject”. It is an honourable attempt but, frankly, this reviewer doubts it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New fiction

Horns of Africa

Jan 17th 2002
From The Economist print edition

Twelve Bar Blues
By Patrick Neate

Viking; 402 pages; £9.99

Buy it at
Amazon.co.uk

THE winner of this year's Whitbread Best Novel Award, Patrick Neate, a young London unknown, was stunned to discover that he had pipped the favourite, Ian McEwan, whose novel “Atonement” also narrowly missed winning the Booker prize last autumn. Though the choice of Mr Neate's second novel was a surprise, it could be a commercial winner.

“Twelve Bar Blues” scurries enthusiastically through the jazz dens of New Orleans, a post-colonial African village, London and New York. Its ambitious scale is reminiscent of Zadie Smith's “White Teeth”, another fashionable and ostentatiously multicultural novel by a young Londoner. “Twelve Bar Blues” is fast-paced, funny and entertaining—although the main female character, Sylvia, a disillusioned, mixed-race ex-hooker, often sounds suspiciously like a 30-something white male Cambridge graduate.

Leaping between eras and time zones, Mr Neate creates a convoluted family history for his characters, starting with an African twist on a traditional love triangle, involving a jealous witch doctor who magically delivers his hapless rival into the hands of slave traders. The descendants of these mythical figures resurface as the novel's main characters, first in the heady mix from which jazz emerged in the early 20th century, and then washed up into the present day. The fate of a forgotten genius, Lick Holden, who plays the cornet in Louisiana honky-tonks, becomes intertwined with that of Sylvia, as she sets off across America to discover her roots, together with diverse other characters. Among them are a gormless white drifter, a dope-smoking witch doctor and a wonderfully pompous African chief.

The elements of African magic and legend work well, since early jazz is also a world of myth, many of its players anonymous and unrecorded. Mr Neate has drawn on his experience teaching in Zimbabwe to create the fictional country of Zambawi, and the jazz facts and slang that pepper the novel suggest a good deal of diligent research. Research, though, can't bridge every gap between the deep South and South London. Mr Neate admits that he still sounds like “a plum” when trying to recreate the twangy speech patterns of “N'awlins” during public readings.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Palestine

Grey is hard to find

Jan 17th 2002
From The Economist print edition

BOOKS IN BRIEF

Amid the rage, voices of reason are rare—but they exist

ANGER suffuses these essays and first-hand accounts of an enduring predicament that has bred resentment and terror. Noam Chomsky, a veteran American critic of Israel, sets the polemical tone in his introduction. Robert Fisk, a British Middle Eastern correspondent, empathises with Palestinian contributors from the frontline on the streets of the West Bank and Gaza. The villains are Israeli and American policymakers. The book is charged with feeling. Less clear from it is what the new *intifada* has in the end achieved for Palestinians.

The New Intifada: Resisting Israel's Apartheid
Edited by Roane Carey

Verso; 354 pages; $20 and £13

Buy it at
Amazon.com
Amazon.co.uk

PALESTINIAN refugees are among the Middle East's biggest losers: dispossessed, politically marginalised and shoddily treated, often by host countries. This valuable academic collection documents their misery. It blames Zionists for creating the refugees, the outside world for ignoring them and the PLO for betraying them. Using post-war Germany's compensation to the new Jewish state as a guide, Atif Kubursi calculates the Palestinian refugees' losses at $281 billion. But most of these pieces say that what they really want is the right of return.

Palestinian Refugees: The Right of Return
Edited by Naseer Aruri

Pluto Press; 306 pages; $69.95 and £50 ($22.50 and £14.99 paperback)

Buy it at
Amazon.com
Amazon.co.uk

PEACE without justice is impossible, argues a Paris-based Israeli Arab, Marwan Bishara. Israel, he further believes, cannot both remain democratic and continue to impose a South African-like apartheid on Palestinians as an occupying power. Mr Bishara's language is heated, and his slim book will not convince everyone. But he sustains his argument and provides a case to answer, drawing on Jewish as well as Palestinian sources, including David Ben Gurion's letter to his son, declaring: “We shall drive them out and take their place.”

Palestine/Israel: Peace or Apartheid
By Marwan Bishara

Zed Books; 160 pages; $55 and £32.95 ($17.50 and £9.99 paperback)

Buy it at
Amazon.com
Amazon.co.uk

MUSRARA is an attractive district on the border of Jewish west Jerusalem and the Arab east, characterised by old stone houses that were abandoned by their Arab owners and then settled by mainly North African Jewish immigrants. The quarter is now being gentrified. One new arrival is a film critic on the *Jerusalem Post*, Adina Hoffman, who was born in America. In “House of Windows” she exquisitely portrays the domestic dramas of her neighbours, while wondering who the previous Arab occupants of her home were. What would she say if they turned up?

House of Windows: Portraits from a Jerusalem Neighborhood
By Adina Hoffman

Broadway Books; 224 pages; $12.95

Buy it at
Amazon.com
Amazon.co.uk

THE urge to see the Israel-Palestine dispute in black and white is almost irresistible. Raja Shehadeh, a lawyer and writer in Ramallah, is unpopular among fellow Palestinians for trying to distinguish shades of grey. He accepts that there are good Jews, just as there are bad Arabs (a group of whom murdered his

Strangers in the House: Coming of Age in Occupied

father). His views on inter-communal politics, strongly shaped by his work in human-rights law, are reinforced here by reflections on his own life. This book is distinctive and truly impressive.

Palestine
By Raja Shehadeh

Steerforth Press; 254 pages; $25.
Profile Books (August); £9.99

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Cyrus Vance

Jan 17th 2002
From The Economist print edition

Cyrus Roberts Vance, a principled statesman, died on January 12th, aged 84

Reuters

WHEN Cyrus Vance decided to resign in 1980 he sought to do it with a minimum of fuss, for that was his style. He wrote to his president, Jimmy Carter, that a plan to try to rescue by force 52 Americans held prisoner in the United States embassy in Tehran had been made against his judgment and that he was resigning as secretary of state, whether the mission succeeded or failed. Several days later, when the mission had failed, dismally, Mr Vance's resignation was made public. But he was not allowed to bow out quietly. No one could remember a secretary of state, the highest post in the cabinet, resigning on a matter of principle. It took some searching to find a single precedent, William Jennings Bryan, a pacifist who had resigned as secretary of state in 1915 because he believed American policy favoured joining the war in Europe.

Mr Vance was not a pacifist. He had served in the navy in the second world war, and saw action in the Pacific. He had no liking for the revolutionary government that had taken over Iran. But he believed that some of the American prisoners might die in an attack, and that even if the mission, called Eagle Claw, were successful it would disturb an already unstable region. He was doubtful about the ability of the army to cope with conditions in a land they had no knowledge of. He had no great faith in the marvels of military technology. In 1962, when he was secretary of the army, the walkie-talkies of soldiers guarding blacks from white supremacists in the southern states failed at crucial moments. His misgivings were justified. Eagle Claw never got near the prisoners. Helicopters that were the mainstay of the mission were disabled in an unanticipated sandstorm in the Iranian desert. Eight American servicemen died and eight aircraft were lost. The mission was judged a brave one, but stupid. The embassy Americans were eventually freed as a result of painstaking negotiation, a process Mr Vance had pressed for.

The president's ear

Cyrus Vance was aware that, despite his exalted job, others could have a say in making and carrying out American foreign policy, particularly at times of great national stress. (The present star in the war against terrorism is the defence secretary, Donald Rumsfeld, a man of strong words and once a champion wrestler.) At the time of Eagle Claw Mr Vance's rival for President Carter's ear was his hawkish national security adviser, Zbigniew Brzezinski.

For much of his three years as secretary of state Mr Vance was uneasy as he battled with Mr Brzezinski for influence over foreign policy. Mr Vance knew that the president backed him in many ways, particularly in the view that human rights should be a pillar of American foreign policy; that was one of the reasons he had been picked for the job. But in the run-up to an election against Ronald Reagan, Mr Carter wanted to show that he could be tough with the Iranians. Mr Vance was even bothered that his office in the State Department was a mile or so from the White House, whereas Mr Brzezinski's office was next door to the president's. Even the great and the good exhibit human fears.

Polish-born Mr Brzezinski, a naturalised American, was clever, ambitious and ten years younger than Mr Vance. He saw him, he wrote later, as a relic of “the once-dominant WASP elite” whose “values and rules were of declining relevance”. Mr Vance was indeed a WASP, born to a prosperous family in West Virginia and expensively educated. He had a successful career as a lawyer and seemingly was without political ambition. He once said,

> A lot of us were raised in families where we were taught that we were very fortunate, that we were going to have a good education, and that we had the responsibility to return to the community some of the benefits and blessings we had, and that there was an obligation to participate in government service at the local, state and national level.

For some 30 years various presidents, among them John Kennedy and Lyndon Johnson as well as Jimmy Carter, together with international organisations, valued his WASPish talents. His departure as secretary of state did not end his service to government and the United Nations. He would be lured away from his law practice, given a working title, special this or special that, and asked to take on problems that had no solutions but could perhaps be made less menacing. So he went off to the Middle East, to the Balkans, to the Koreas, to Cyprus, and, until it broke up and created a new set of problems, to the Soviet Union. He was sceptical of any proposed American “master plan” for the world. His method was to take each problem, look at it as a lawyer would a brief, judge what could be negotiated, and draw up a contract.

Mr Vance was sometimes compared with another indefatigable American traveller, Henry Kissinger. Philip Habib, an American career diplomat who worked with many negotiators, greatly admired Mr Kissinger. His capacity “to put things together, to move, to produce the precise word at the right time, and his wit, were marvellous things to behold”. But Cyrus Vance's “absolute, total and complete honesty” made him “probably the finest public servant I ever worked with”. Not bad for a WASP of declining relevance.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 17th 2002
From The Economist print edition

Industrial production in **America** fell by 0.1% in December, ending a year in which factory output fell by a total of 5.8%, the worst since 1982. Capacity utilisation in December was the lowest since 1983.

American consumer prices fell by 0.2% in December, and rose by 1.6% over the year, thanks partly to lower energy costs. Producer prices in the year to December showed the effect of America's downturn, falling by 1.8%, their biggest decline in 15 years.

There was more evidence of the depth of the **euro area**'s slowdown: in the 12 months to November, **Germany**'s industrial output fell by 4.8%, **Dutch** manufacturing output declined by 5.3% and **Belgian** industrial production fell by 9.3%.

Britain's manufacturers endured more pain as industrial output fell by 4.8% in the year to November, the steepest drop in a decade. Consumer prices rose by 0.7% in the year to December, the slowest since 1960. Low interest rates have done their bit by reducing mortgage interest payments, which are included in the price index.

In another sign of **Canada**'s fragile economy, unemployment jumped from 7.5% in November to 8.0% in December, the highest for almost three years. The Bank of Canada stepped in with a quarter-point interest-rate cut, lowering its key overnight rate to 2.0%, the lowest since 1960.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Jan 17th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 4.6	+ 2.5 Q3	+ 2.1	+ 3.2	– 0.4 Q2	+ 5.8 Q3	6.7 Dec	6.3
Austria	+ 0.2	+ 1.2 Q2	+ 1.1	+ 1.0	– 1.3 Oct	– 4.8 Sep	4.0 Nov	3.6
Belgium	– 1.2	+ 0.7 Q3	+ 1.2	+ 1.0	– 9.3 Nov*	– 2.5 Oct	10.8 Dec*	10.6
Britain	+ 1.7	+ 2.2 Q3	+ 2.2	+ 1.8	– 4.8 Nov	+ 7.1 Nov	5.1 Nov†	5.3
Canada	– 0.8	+ 0.8 Q3	+ 1.4	+ 1.2	– 6.0 Oct**	– 0.9 Sep	8.0 Dec	6.8
Denmark	+ 3.5	+ 1.4 Q3	+ 1.1	+ 1.3	+ 0.8 Nov	+ 0.9 Oct	5.0 Nov	5.5
France	+ 1.9	+ 2.0 Q3	+ 2.0	+ 1.3	– 0.9 Nov	– 1.3 Oct	9.0 Nov	9.1
Germany	– 0.6	+ 0.3 Q3	+ 0.7	+ 0.6	– 4.8 Nov	– 0.4 Nov	9.5 Dec††	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.0	+ 0.9 Oct	– 0.3 Oct	9.3 Oct	10.0
Japan	– 2.2	– 0.5 Q3	– 0.4	– 1.2	–13.1 Nov	– 2.1 Sep	5.5 Nov	4.8
Netherlands	– 1.4	+ 0.4 Q3	+ 0.9	+ 1.0	– 5.3 Nov	– 2.4 Sep	2.0 Nov§	2.6
Spain	+ 1.1	+ 2.8 Q3	+ 2.6	+ 1.8	– 4.7 Nov	na	13.0 Nov	13.6
Sweden	+ 0.2	+ 0.4 Q3	+ 1.3	+ 1.4	– 5.7 Oct	+ 2.6 Nov	3.7 Nov*	3.9
Switzerland	+ 0.1	+ 0.8 Q3	+ 1.5	+ 0.9	+ 1.9 Q3*	+ 4.8 Oct	2.4 Dec*	1.9
United States	– 1.1	+ 0.6 Q3	+ 1.1	+ 0.7	– 5.8 Dec	+ 5.4 Nov	5.8 Dec	4.0
Euro area	+ 0.4	+ 1.4 Q3	+ 1.5	+ 1.0	– 2.7 Oct	– 0.5 Oct	8.5 Nov	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 5.0	nil Q3	na	na	– 4.8 Nov	+ 3.3 Sep	8.8 Nov*	8.7
Greece	na	+ 4.4 Q3	na	na	+ 2.0 Oct*	+ 4.1 Oct	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.4 Oct	1.1
Ireland	na	+ 9.2 Q2	na	na	– 8.0 Nov	+ 3.2 Oct	4.1 Dec	3.6
Luxembourg	na	+ 8.52000	na	na	+ 7.8 Sep	+ 9.5 Aug	2.7 Oct	2.5
New Zealand	+ 2.8	+ 2.1 Q3	na	na	+ 3.5 Q2*	+ 6.3 Q3	5.2 Q3	5.8
Norway	+ 3.8	+ 1.9 Q3	na	na	– 2.5 Nov	+ 5.4 Nov	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	+ 2.9 Nov	+ 3.3 Oct	4.0 Q3	4.0

*Not seasonally adjusted. †Sep-Nov; claimant count rate 3.2% in Dec. §Sep-Nov. **New series. ††EU harmonised rate 8.0% in Dec.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Jan 17th 2002
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.2	+ 2.4	+ 2.4	Q3	+ 7.2	+ 4.0	Q3	+ 6.5
Austria	+ 2.0	Nov	+ 3.1	+ 2.5	+ 1.4	– 1.1	Dec	+ 4.4	+ 2.7	Nov	+ 2.2
Belgium	+ 2.2	Dec	+ 2.5	+ 2.5	+ 1.5	– 3.6	Nov	+10.2	+ 3.1	Q4	+ 1.6
Britain	+ 0.7	Dec	+ 2.9	+ 1.9	+ 1.9	– 1.2	Dec	+ 2.3	+ 4.2	Nov	+ 4.2
Canada	+ 0.7	Nov	+ 3.2	+ 2.6	+ 1.5	– 1.9	Nov	+ 5.3	+ 2.4	Oct	+ 2.4
Denmark	+ 2.2	Dec	+ 2.4	+ 2.3	+ 1.9	+ 0.4	Dec	+ 3.9	+ 4.3	Q3	+ 3.8
France	+ 1.4	Dec	+ 1.6	+ 1.7	+ 1.1	– 2.3	Nov	+ 6.3	+ 4.1	Q3	+ 5.3
Germany	+ 1.7	Dec	+ 2.2	+ 2.4	+ 1.1	– 1.9	Nov	+ 6.4	+ 2.2	Oct	+ 2.2
Italy	+ 2.4	Dec	+ 2.7	+ 2.7	+ 1.6	– 1.3	Nov	+ 6.7	+ 2.8	Nov*	+ 1.8
Japan	– 1.0	Nov	– 0.8	– 0.7	– 1.0	– 0.8	Dec	+ 1.1	– 0.8	Nov*	nil
Netherlands	+ 4.4	Dec	+ 2.9	+ 4.8	+ 2.2	– 2.3	Nov	+ 9.0	+ 4.6	Nov	+ 3.3
Spain	+ 2.7	Dec	+ 4.0	+ 3.6	+ 2.2	– 0.8	Nov	+ 5.7	+ 3.6	Q3†	na
Sweden	+ 2.7	Nov	+ 1.7	+ 2.5	+ 1.9	– 0.9	Nov	+ 4.8	+ 2.5	Oct*	+ 3.0
Switzerland	+ 0.3	Dec	+ 1.5	+ 1.0	+ 0.6	– 2.0	Nov	+ 3.0	+ 1.3	2000	+ 0.3
United States	+ 1.6	Dec	+ 3.4	+ 2.9	+ 1.5	– 1.8	Dec	+ 3.6	+ 4.1	Dec	+ 4.4
Euro area	+ 2.0	Dec	+ 2.6	+ 2.6	+ 1.4	– 1.3	Nov	+ 6.4	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Dec	+ 3.5	na	na	– 4.4	Nov	+ 8.8	+ 4.5	Q3*	+ 4.9
Greece	+ 3.0	Dec	+ 3.9	na	na	+ 1.7	Sep	+ 9.2	na		na
Iceland	+ 9.4	Jan	+ 3.5	na	na	+ 8.4	Dec	+ 3.5	+ 9.4	Nov	+ 7.6
Ireland	+ 3.8	Nov	+ 7.0	na	na	+ 0.5	Nov	+ 5.9	+ 8.7	Q3*	+ 7.4
Luxembourg	+ 2.1	Nov	+ 3.7	na	na	+ 0.9	Sep	+ 6.1	+ 3.4	Aug*	+ 7.0
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 6.2	Q3	+ 8.4	+ 2.0	Q3	+ 1.5
Norway	+ 2.1	Dec	+ 3.0	na	na	–14.1	Dec	+ 9.0	+ 4.6	Q3*	+ 4.2
Portugal	+ 3.9	Nov	+ 3.8	na	na	– 7.9	Nov	+16.8	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Portfolio poll

Jan 17th 2002
From The Economist print edition

Portfolio poll

4th quarter 2001

▼▲ A change of 5% points or more on last quarter
▼▲ A change of less than 5% points on last quarter

	Holdings by instrument, %			Equity holdings by area, %						
	Equities	Bonds	Cash	United States	Other Americas	Britain	Euro area	Other Europe	Japan	Other Asia
Robeco Group	55 ▲	45 ▼	0	58 ▲	2	10 ▼	15	4 ▼	7 ▼	4
Julius Baer PB	43 ▼	45	12† ▲	53 ▲	3	2	22 ▲	6 ▼	9	5 ▲
Commerz Int. CM	60	40	0	56 ▲	1 ▼	10 ▼	18 ▲	3 ▲	8 ▼	4 ▲
Credit Suisse PB	40 ▲	34 ▼	26‡ ▲	57 ▲	0	9 ▼	21 ▼	2 ▼	11	0 ▼
Lehman Brothers	70	30	0	42 ▼	0	9	27 ▲	5 ▼	9 ▼	8 ▲
Standard Life	55 ▼	45 ▲	0	57 ▲	0 ▼	12	17 ▼	4 ▲	7 ▼	3 ▲
Daiwa IR	58 ▲	37 ▼	5 ▼	50 ▲	1	11	25 ▼	2 ▼	9 ▼	2
Average	54	39 ▼	6 ▲	53 ▲	1 ▼	9 ▼	21	4	9 ▼	4 ▲
Neutral*				56 ▲	2	11	15 ▼	5	8 ▼	3

Bond holdings by currency, %

	Dollar	Yen	Sterling	Euro-zone	Others
Robeco Group	41 ▲	7 ▼	6 ▲	44 ▲	2
Julius Baer PB	85	0	0	10	5
Commerz Int. CM	23 ▼	23 ▼	5	35 ▲	14 ▲
Credit Suisse PB	85 ▼	0	0	15 ▲	0
Lehman Brothers	50 ▲	16 ▼	4	27 ▲	3 ▲
Standard Life	25	29	5	38	3
Daiwa IR	37 ▲	11 ▼	5	40 ▼	7 ▲
Average	49	12 ▼	4 ▲	30 ▲	5 ▲
Neutral*	25	27 ▼	5	37	6 ▲

*Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index
†Of which 7% invested in alternative investments ‡Of which 17% invested in alternative investments

The new year has started on a cautiously optimistic note. Three of the seven investment managers in our quarterly survey have increased their equity holdings. Robeco and Credit Suisse both increased their allocations by more than five percentage points. Yet Lehman Brothers' bold stance—70% of its model portfolio is now allocated to equities—makes it the most bullish of the lot. All but one of our moneymen have increased their holdings of American shares, but, perhaps mindful of the crisis in Argentina, nobody has dared to increase his bet on Latin American equities. Europe still seems like a safer place to invest than Japan. Most of our investors have increased their holdings of euro-denominated bonds, while reducing exposure to yen-denominated debt.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Jan 17th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 16th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.1	+14.0	Nov	4.22	5.92	4.33	5.64	5.50	6.50
Britain	+ 7.8	+ 8.2	Nov	3.97	5.81	4.62	4.81	4.87	6.03
Canada	+15.4	+ 4.9	Nov	1.90	5.28	2.85	5.24	5.42	6.92
Denmark	+ 7.8	+ 6.4	Nov	3.74	5.45	4.14	4.90	5.13	7.00
Japan	+13.7	+ 3.4	Dec	0.04	0.44	0.08	1.40	1.55	1.50
Sweden	+ 7.1	+ 6.2	Nov	3.70	4.06	4.40	5.06	4.87	5.14
Switzerland	+ 1.9	+ 4.8	Nov	1.72	3.41	2.48	3.26	3.45	4.30
United States	+ 8.2	+13.5	Dec	1.60	5.47	2.82	4.85	5.17	6.70
Euro area†	+ 6.1	+ 8.0	Nov	3.34	4.71	3.66	4.68	4.76	5.29

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.50%, Japan No.235 1.40%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Jan 17th 2002
From The Economist print edition

1995=100

	Jan 8th	Jan 15th*	% change on one month	% change on one year
Dollar index				
All items	67.5	67.7	+ 3.3	– 6.8
Food	69.3	69.7	+ 3.0	– 3.2
Industrials				
All	65.2	65.0	+ 3.7	–11.5
Nfa†	60.0	61.1	+ 1.9	– 8.6
Metals	69.5	68.3	+ 5.0	–13.6
Sterling index				
All items	73.9	73.9	+ 4.2	– 5.1
Euro index				
All items	99.7	99.9	+ 4.5	– 1.6
Yen index				
All items	95.3	94.6	+ 6.1	+ 3.9
Gold				
$ per oz	278.85	284.90	+ 2.0	+ 7.7
West Texas Intermediate				
$ per barrel	20.84	20.01	+ 3.3	–33.9

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Jan 17th 2002
From The Economist print edition

Market indices

	Jan 16th	2001-02 high	2001-02 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,367.2	3,425.2	2,867.4	+ 0.4	– 1.7	+ 6.7	– 1.1
Austria (ATX)	1,124.1	1,245.8	1,014.3	+ 0.9	–35.3	+ 4.7	– 1.4
Belgium (Bel 20)	2,646.0	3,030.4	2,322.6	– 1.2	–28.1	–12.5	–17.7
Britain (FTSE 100)	5,127.6	6,334.5	4,433.7	– 1.9	–26.0	–17.6	–20.7
Canada (Toronto Composite)	7,584.0	9,348.4	6,513.1	– 2.5	–33.4	–15.1	–19.9
Denmark (KBX)	219.8	294.3	197.8	– 1.6	–27.2	–17.0	–21.5
France (SBF 250)	2,891.4	3,820.2	2,335.3	– 3.1	–34.1	–23.3	–27.9
(CAC 40)	4,425.5	5,998.5	3,652.9	– 3.5	–36.1	–25.3	–29.7
Germany (Xetra DAX)	4,984.2	6,795.1	3,787.2	– 5.7	–38.2	–22.5	–27.1
Italy (BCI)	1,397.4	1,948.4	1,082.9	– 3.4	–36.0	–27.1	–31.4
Japan (Nikkei 225)	10,177.6	14,529.4	9,504.4	– 4.6	–73.8	–26.2	–36.1
(Topix)	987.6	1,441.0	863.4	– 3.6	–65.8	–23.1	–33.4
Netherlands (AEX)	489.3	642.3	396.2	– 1.9	–30.3	–23.3	–27.8
Spain (Madrid SE)	777.1	963.9	648.6	– 2.6	–32.2	–11.8	–17.0
Sweden (Affarsvarlden Gen)	217.5	293.1	177.5	– 5.8	–45.7	–21.7	–29.3
Switzerland (Swiss Market)	6,238.9	8,135.4	5,110.2	– 1.9	–25.8	–23.3	–25.3
United States (DJIA)	9,712.3	11,337.9	8,235.8	– 3.8	–17.2	–10.0	–10.0
(S&P 500)	1,127.6	1,373.7	965.8	– 2.4	–26.2	–14.6	–14.6
(Nasdaq Comp)	1,944.4	2,859.2	1,423.2	– 4.9	–61.5	–21.3	–21.3
Europe (FTSE Eurotop 300)*	1,216.1	1,545.5	998.9	– 2.6	–28.7	–20.7	–25.4
Euro area (FTSE Ebloc 100)*	1,056.1	1,404.1	843.6	– 3.8	–31.9	–24.1	–28.6
World (MSCI)†	977.4	1,249.2	856.6	– 2.7	–32.5	na	–20.0
World bond market (Salomon)‡	440.6	461.7	420.6	+ 0.5	– 4.2	na	– 0.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Jan 17th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Jan 16th	year ago	Currency units per $ Jan 16th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.1	Nov	– 8.5	Q3	– 2.3	– 2.8	73.9	74.8	1.94	1.81	2.79	1.72	1.47	0.1
Austria	– 5.0	Oct	– 4.6	Oct	– 2.5	– 2.2	100.2	100.5	15.6	14.8	22.4	13.8	11.8	nil
Belgium	+ 11.0	Oct	+ 12.4	Sep	+ 3.9	+ 4.2	98.9	99.4	45.7	43.4	65.7	40.3	34.6	nil
Britain	– 47.2	Oct	– 17.7	Q3	– 1.7	– 2.2	107.2	104.8	0.70	0.68	–	0.61	0.53	1.1
Canada	+ 43.0	Oct	+ 23.9	Q3	+ 2.7	+ 1.7	75.9	79.0	1.59	1.51	2.29	1.41	1.21	2.8
Denmark	+ 7.5	Nov	+ 4.8	Nov	+ 2.5	+ 2.1	102.2	101.9	8.41	8.03	12.1	7.43	6.38	2.0
France	+ 2.7	Nov	+ 24.1	Nov	+ 1.6	+ 1.5	101.5	102.1	7.42	7.05	10.7	6.56	5.63	-1.5
Germany	+ 70.7	Nov	– 4.5	Nov	– 0.6	– 0.3	98.6	99.2	2.21	2.10	3.18	1.96	1.68	-2.5
Italy	+ 4.9	Oct	– 1.7	Oct	– 0.2	+ 0.2	72.4	72.9	2,192	2,081	3,152	1,936	1,662	-1.4
Japan	+ 72.9	Nov	+ 89.9	Nov	+ 2.0	+ 2.0	128.4	141.0	132	118	190	116	–	-6.4
Netherlands	+ 19.3	Oct	+ 11.1	Q3	+ 3.7	+ 3.9	97.8	98.3	2.49	2.37	3.59	2.20	1.89	1.1
Spain	– 38.4	Oct	– 14.1	Oct	– 2.5	– 2.3	74.2	74.5	188	179	271	166	143	nil
Sweden	+ 12.5	Nov	+ 6.3	Oct	+ 2.4	+ 2.3	75.6	79.2	10.45	9.57	15.0	9.24	7.93	3.8
Switzerland	+ 0.7	Nov	+ 25.4	Q3	+10.7	+11.1	112.3	107.8	1.66	1.65	2.39	1.47	1.26	na
United States	–438.9	Oct	–430.7	Q3	– 4.1	– 4.0	122.8	114.7	–	–	1.44	0.88	0.76	0.6
Euro area	+ 24.9	Oct	– 31.2	Oct	+ 0.2	– 0.1	78.6	80.9	1.13	1.07	1.63	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.1	Nov	+ 8.5	Nov	na	na	78.2	78.2	6.69	6.39	9.62	5.91	5.07	3.7
Greece	– 7.7	Oct	– 7.2	Sep	na	na	57.5	57.6	383	366	552	339	291	0.2
Iceland	– 0.2	Nov	– 0.7	Q3	na	na	na	na	102	85.4	147	90.1	77.4	-0.2
Ireland	+ 31.8	Oct	– 1.5	Q2	na	na	87.1	88.2	0.89	0.85	1.27	0.78	0.67	3.2
Luxembourg	– 2.8	Sep	+ 1.2	Q2	na	na	98.9	99.4	45.4	43.4	65.3	40.1	34.4	5.3
New Zealand	+ 0.4	Nov	– 0.2	Q3	na	na	82.1	81.4	2.33	2.26	3.36	2.06	1.77	1.3
Norway	+ 25.5	Dec	+ 26.0	Oct	na	na	97.0	93.4	8.94	8.81	12.9	7.90	6.78	14.3
Portugal	– 12.9	Sep	– 10.5	Oct	na	na	89.2	89.6	226	215	324	199	171	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist metals index

Jan 17th 2002
From The Economist print edition

Our dollar-based metals index has surged by 12% from an eight-year low in November, as traders have bet on an economic upturn this year. Base-metal prices have historically served as a leading indicator. Nickel has done best, climbing by 40%.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 17th 2002
From The Economist print edition

South Africa's Reserve Bank raised its key interest rate by a full point, to 10.5%, on concerns that the slump in the rand could push up inflation. The rand has fallen by a third against the dollar over the past year.

Deflation is spreading through Asia. China's consumer prices fell by 0.3% in the 12 months to December. Prices are also falling in Hong Kong, Singapore and Taiwan. Malaysia's inflation dropped to 1.2% in December.

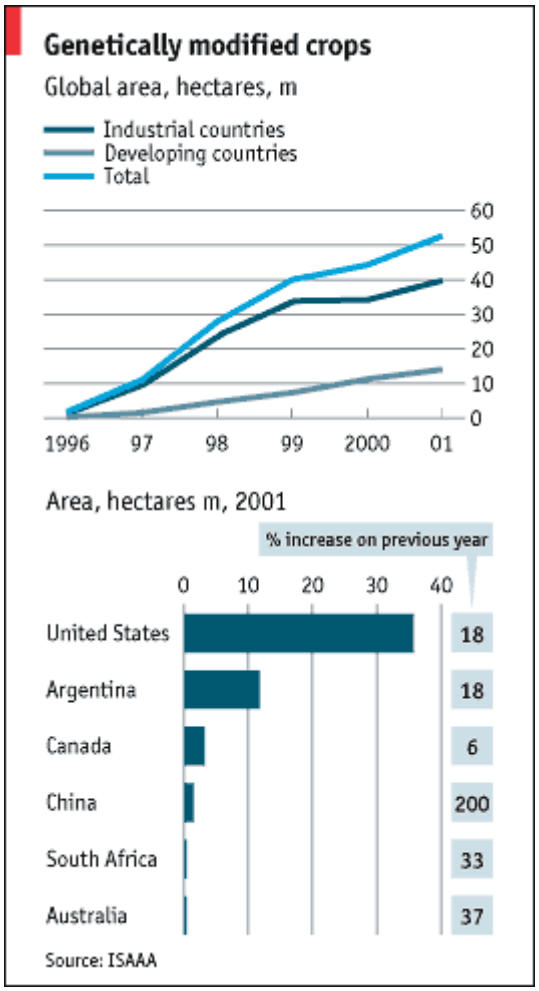
In the year to November, industrial production fell by 2.0% in **Brazil** and by 3.7% in **Mexico**. The 12-month growth in **India**'s industrial production slowed to only 0.9% in November, down from 7.4% a year ago. In contrast, **China**'s output rose by 8.7% in the 12 months to December.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Genetically modified crops

Jan 17th 2002
From The Economist print edition

According to a report from the International Service for the Acquisition of Agri-biotech Applications, genetically modified (GM) crops are gaining ground. In 2001 some 52.6m hectares were planted with GM crops, a 19% rise over the previous year. Thirteen countries now grow GM soyabeans, maize, corn, cotton or canola. America accounts for two-thirds of global production, but China, South Africa and Australia are rapidly increasing their share. Despite lingering consumer unease, particularly in Europe, the report predicts a bright future for GM crops.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Jan 17th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 8.7	Dec	– 0.3	Dec	+22.6	Dec	+20.5	2000	206.5	Oct
Hong Kong	– 0.3	Q3	– 7.1	Q3	– 1.4	Nov	–11.9	Nov	+ 8.8	Q3	111.2	Dec
India	+ 5.3	Q3	+ 0.9	Nov	+ 4.9	Nov	– 5.7	Nov	– 0.7	Q3	45.2	Dec
Indonesia	+ 3.5	Q3	+ 3.2	Q2	+12.6	Dec	+25.4	Nov	+ 4.0	Q3	27.3	Nov
Malaysia	– 1.3	Q3	– 4.4	Nov	+ 1.2	Dec	+14.5	Nov	+ 7.4	Q3	29.8	Oct
Philippines	+ 2.9	Q3	– 0.2	Oct	+ 3.9	Dec	+ 3.4	Oct	+ 5.1	Sep	12.2	Oct
Singapore	– 7.0	Q4	–13.6	Nov	– 0.2	Nov	+ 5.2	Dec	+22.1	Q3	75.8	Dec
South Korea	+ 1.8	Q3	+ 4.9	Nov	+ 3.2	Dec	+ 9.5	Dec	+ 9.9	Nov	101.6	Nov
Taiwan	– 4.2	Q3	– 6.8	Nov	– 1.7	Dec	+15.7	Dec	+16.2	Q3	122.2	Dec
Thailand	+ 1.5	Q3	+ 0.1	Nov	+ 0.8	Dec	+ 2.3	Nov	+ 6.1	Nov	32.6	Nov
Argentina	– 4.9	Q3	–10.4	Nov	– 1.5	Dec	+ 5.6	Nov	– 8.4	Q2	18.1	Oct
Brazil	+ 0.3	Q3	– 2.0	Nov	+ 9.4	Dec	+ 1.6	Nov	–24.4	Nov	37.2	Nov
Chile	+ 2.6	Q3	+ 4.9	Nov	+ 2.7	Dec	+ 1.6	Nov	– 1.7	Q3	14.2	Nov
Colombia	+ 1.0	Q3	– 1.1	Oct	+ 7.7	Dec	+ 0.7	Oct	– 0.7	Q2	10.3	Dec
Mexico	– 1.6	Q3	– 3.7	Nov	+ 4.4	Dec	– 9.9	Nov	–16.6	Q3	43.4	Oct
Peru	+ 1.7	Nov	+ 2.6	Oct	– 0.1	Dec	– 0.3	Oct	– 1.4	Q3	8.8	Oct
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+12.3	Dec	+13.7	Q3	+ 4.4	Q4	9.4	Nov
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.3	Oct	– 8.5	Sep	nil	Q3	13.8	Sep
Israel	– 2.7	Q3	– 7.3	Oct	+ 1.4	Dec	– 7.1	Dec	– 3.6	Q3	22.9	Dec
South Africa	+ 0.1	Q3	+ 4.1	Nov	+ 4.3	Nov	+ 4.8	Nov	+ 0.3	Q3	6.1	Nov
Turkey	– 7.1	Q3	–13.9	Nov	+68.5	Dec	–13.4	Oct	+ 0.9	Oct	18.5	Nov
Czech Republic	+ 3.2	Q3	+ 6.6	Nov	+ 4.1	Dec	– 3.1	Nov	– 2.6	Q3	14.3	Dec
Hungary	+ 3.7	Q3	– 0.8	Nov	+ 6.8	Dec	– 1.8	Nov	– 0.8	Nov	11.2	Nov
Poland	+ 0.8	Q3	– 0.8	Nov	+ 3.6	Dec	–11.8	Nov	– 7.2	Nov	25.2	Nov
Russia	+ 4.9	Q3	+ 4.7	Nov	+18.8	Dec	+52.3	Nov	+41.5	Q3	33.3	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 5.0	Jul	+ 2.7	Nov	– 1.1	Oct	+ 0.3	2001†	2.4	Oct
Saudi Arabia	+ 4.5	2000§	na		– 0.3	Oct	+50.9	2000	+15.6	2000	17.6	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Jan 17th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 16th		Dec 31st 2000	
	Jan 16th	year ago	Jan 16th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	1,539.8	–5.3	–29.8	–29.8
Hong Kong	7.80	7.80	11.2	1.70	10,964.1	–4.2	–27.4	–27.4
India	48.3	46.4	69.4	6.71	3,348.8	–1.5	–15.7	–18.4
Indonesia	10,386	9,450	14,939	17.75	423.6	+8.2	+1.7	–5.2
Malaysia	3.80	3.80	5.47	3.30	700.6	nil	+3.1	+3.1
Philippines	51.3	54.4	73.7	9.13	1,194.6	+0.9	–20.1	–22.0
Singapore	1.83	1.73	2.64	0.94	1,674.5	–0.7	–13.1	–17.8
South Korea	1,311	1,278	1,885	4.79	711.0	–5.4	+40.9	+36.0
Taiwan	35.0	32.6	50.3	2.60	5,488.3	–6.4	+15.7	+9.5
Thailand	43.9	43.2	63.1	2.44	319.6	+0.1	+18.7	+17.4
Argentina	1.89**	1.00	2.72	na	na	na	na	na
Brazil	2.39	1.96	3.43	19.05	13,083.7	–6.7	–16.1	–31.5
Chile	670	572	964	5.92*	5,278.7	–0.5	+8.4	–7.2
Colombia	2,257	2,236	3,246	11.47	1,089.1	+1.3	na	na
Mexico	9.20	9.89	13.2	6.41	6,579.4	+0.3	+16.4	+21.6
Peru	3.46	3.52	4.98	3.03	1,246.1	+1.3	+3.1	+5.1
Venezuela	762	699	1,095	13.00	6,468.1	–0.9	–4.8	–12.5
Egypt	4.61	3.84	6.64	7.22	5,268.8	–2.0	–31.2	–42.0
Israel	4.54	4.11	6.52	2.22	442.5	–2.7	–10.5	–20.2
South Africa	11.7	7.83	16.8	10.20	10,661.0	–0.4	+28.0	–17.2
Turkey	1,375,500	674,170	1,978,519	54.00	12,758.9	–9.1	+35.2	–34.1
Czech Republic	36.6	38.2	52.6	4.58	402.5	–0.6	–15.9	–13.5
Hungary	276	285	397	9.08	7,701.4	+3.9	–1.9	+0.4
Poland	4.12	4.12	5.93	10.87	15,652.8	–0.7	–12.3	–12.0
Russia	30.5	28.4	43.9	25.00	283.0	–2.6	+110.3	+97.5
EMF (MSCI)‡	1.00	1.00	1.44	na	318.9	–4.3	na	–4.5
EMBI+§	1.00	1.00	1.44	na	203.8	–0.2	na	+0.9

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **Fixed official rate 1.40.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.